

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-33385

**CALAVO GROWERS, INC.**

(Exact name of registrant as specified in its charter)

California

(State of Other Jurisdiction of incorporation or Organization)

33-0945304

(I.R.S. Employer Identification No.)

1141-A Cummings Road, Santa Paula, CA

(Address of principal executive offices)

93060

(Zip code)

Registrant's telephone number, including area code: (805) 525-1245

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name Of Each Exchange On Which Registered</u>
Common Stock, \$0.001 Par Value per Share	CVGW	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically; every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.0405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Based on the closing price as reported on the Nasdaq Global Select Market, the aggregate market value of the Registrant's Common Stock held by non-affiliates on April 30, 2020 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$0.9 billion. Shares of Common Stock held by each executive officer and director and by each shareholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant's Common Stock as of November 30, 2020 was 17,689,818.

**Documents Incorporated by Reference**

Portions of the Registrant's Proxy Statement for the 2020 Annual Meeting of Shareholders, which we intend to hold on April 21, 2021 are incorporated by reference into Part III of this Form 10-K. The definitive Proxy Statement will be filed within 120 days after October 31, 2020.

## CAUTIONARY STATEMENT

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7, contains statements relating to future events and results of Calavo Growers, Inc. and its consolidated subsidiaries (Calavo, the Company, we, us or our), including certain projections and business trends, that are “forward-looking statements,” as defined in the Private Securities Litigation and Reform Act of 1995, that involve risks, uncertainties and assumptions. These statements are based on our current expectations and are not promises or guarantees. If any of the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Calavo may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including, but not limited to, any projections of revenue, gross profit, expenses, gain/(loss) on Limoneira shares, income/(loss) from unconsolidated entities, earnings, earnings per share, tax provisions, cash flows and currency exchange rates; the impact of COVID-19 on our business, results of operations and financial condition; the impact of acquisitions or debt or equity investments or other financial items; any statements of the plans, strategies and objectives of management for future operations, including execution of restructuring and integration (including information technology systems integration) plans; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on Calavo and its financial performance, whether attributable to Calavo or any of its unconsolidated entities; any statements regarding pending investigations, legal claims or tax disputes; any statements of expectation or belief; any risks associated with doing business internationally (including possible restrictive U.S. and foreign governmental actions, such as restrictions on transfers of funds and COVID-19 and trade protection measures such as import/export/customs duties, tariffs and/or quotas); any risks associated with receivables from and/or equity investments in unconsolidated entities; system security risk and cyber-attacks and any statements of assumptions underlying any of the foregoing.

Risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by the forward-looking statements include, but are not limited to, the following: the impact of COVID-19 on our business, results of operations and financial condition, including, but not limited to, disruptions in the manufacturing of our products and the operations of the related supply chains supporting our ability to deliver our products to consumers, impacts on our employees and uncertainty regarding our ability to implement health and safety measures for our employees, uncertainties regarding consumer demand for our products in light of COVID-19, increased costs that we must incur as a result of COVID-19, the impact of governmental trade restrictions imposed as a result of COVID-19 and the possible adverse impact of COVID-19 on our goodwill and other intangible assets; the impact of macroeconomic trends and events; the competitive pressures faced by Calavo's business; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs; integration and other risks associated with acquisitions of other businesses; our ability to hire and retain key employees; the resolution of pending investigations, legal claims and tax disputes; the risks associated with doing business internationally (including possible restrictive U.S. and foreign governmental actions, such as restrictions on transfers of funds and COVID-19 and trade protection measures such as import/export/customs duties, tariffs and/or quotas); any risks associated with receivables from and/or equity investments in unconsolidated entities; and potential cyber-attacks on our information technology systems or on the information technology systems of our suppliers or customers.

**Item 1. Business**

**General development of the business**

Calavo Growers, Inc. (Calavo, the Company, we, us or our), is a global leader in the avocado industry and a provider of value-added fresh food. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesalers on a worldwide basis. We procure avocados from California, Mexico and other growing regions around the world. Through our various operating facilities, we (i) sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas, (ii) process and package guacamole and salsa and (iii) create, process and package a portfolio of healthy fresh foods including fresh-cut fruit and vegetables, and prepared foods. We distribute our products both domestically and internationally and report our operations in three different business segments: Fresh products, Calavo Foods and Renaissance Food Group (RFG). See Note 10 in our consolidated financial statements for further information about our business segments. Our principal executive offices are located at 1141-A Cummings Road, Santa Paula, California 93060; telephone (805) 525-1245.

On October 9, 2001, we completed a series of transactions whereby common and preferred shareholders of Calavo Growers of California (the Cooperative), an agricultural marketing cooperative association, exchanged all of their outstanding shares for shares of our common stock. Concurrent with this transaction, the Cooperative was merged into us with Calavo Growers, Inc. emerging as the surviving entity. These transactions had the effect of converting the legal structure of the business from a non-profit cooperative to a for-profit corporation.

In April 2019, we sold our Temecula, California packinghouse for \$7.1 million in cash and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. This generated a gain of \$6.4 million. Since our leaseback of the building is classified as a capital lease and covers substantially all of the leased property, the gain recognized currently is the amount of the gain in excess of the recorded amount of the leased asset. As a result, we recognized a gain of approximately \$1.9 million in the second quarter of fiscal 2019 and recorded a deferred gain of \$4.5 million, which will be recognized over the life of the lease (i.e. straight-line over 15 years).

During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for a fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods products for our RFG business segment. Annual rent for the building and equipment approximates \$0.9 million and \$0.6 million over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and recorded \$2.8 million as a capital lease and lease obligation.

During the fourth quarter of fiscal year 2019, we opened a new production facility in Clackamas, Oregon. This facility will be part of our network of United States Department of Agriculture (USDA) and organic certified fresh food facilities.

During the second quarter of fiscal year 2020, we completed our acquisition of SFFI Company, Inc. doing business as Simply Fresh Fruit (SFFI). We paid \$18.4 million in cash for 100% of SFFI (net of cash acquired). Founded in 1999 and based in Vernon, Calif., privately held SFFI is a processor and supplier of a broad line of fresh-cut fruit, principally serving the foodservice and hospitality markets. Its focus in those industries is anticipated to be highly complementary to the retail-grocery expertise of Calavo's RFG business segment and will be included in the RFG segment going forward.

**Available information**

We maintain an Internet website at <http://www.calavo.com>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and other information related to us, are available, free of charge, on our website as soon as reasonably practicable after we electronically file those documents with, or otherwise

furnish them to, the Securities and Exchange Commission (SEC). Our Internet website and the information contained therein, or connected thereto, is not and is not intended to be incorporated into this Annual Report on Form 10-K.

We have a code of business conduct and ethics that applies to all employees, including our executive officers, as well as our Board of Directors. Our code of business conduct and ethics is available for review on our corporate website. We intend to disclose any changes in, or waivers from, this code by posting such information on the same website or by filing a Form 8-K, in each case to the extent such disclosure is required by rules of the SEC or NASDAQ.

### **Fresh products**

Calavo was founded in 1924 to market California avocados. We sell avocados sourced from a variety of locations (including but not limited to California, Mexico, Peru, and Colombia) to a diverse group of retail grocers, foodservice operators, club stores, mass merchandisers, food distributors and wholesalers, under the Calavo family of brand labels, as well as private labels. Many of our customers desire consistent year round supply across multiple sourcing locations, the ability to receive just-in-time deliveries at their desired level of ripeness and a variety of packaging and display options. In our judgment, these factors benefit large handlers like us, which have the ability to cultivate a variety of diverse sourcing relationships and the value-added distribution infrastructure to meet the needs of these large nationwide accounts. We believe we have developed strong, long-term relationships with our customers that provide a solid base for our business.

The Hass variety is the predominant avocado variety marketed on a worldwide basis. In California, the growing area stretches from San Diego County to Monterey County, with the majority of the growing areas located approximately 100 miles north and south of Los Angeles County. Generally, California grown Hass avocados are available year-round, with peak production periods occurring from April through August. In Mexico, we procure fruit from the growing regions of Michoacán and Jalisco. The Mexican avocado harvest is year-round (though generally most significant from September to June in Michoacán and from June to January for Jalisco). Other significant growing areas from which we have sourced avocados include Peru and Colombia. The storage life of fresh avocados (once picked from the tree) is limited, typically ranging from one to four weeks depending upon the maturity of the fruit, the growing methods used, and the handling conditions in the distribution chain, including the utilization of controlled atmosphere during transport.

Avocados delivered to our packinghouses are graded, sized, packed and cooled. The actual size and timing of the delivery of the annual avocado crop, has a substantial impact on both our costs and the sales price we receive for the fruit. To that end, our field personnel maintain direct contact with growers and farm managers and coordinate harvest plans. The feedback from our field-managers is used by our sales department to prepare sales plans used by our direct sales force. The process by which avocados are purchased from growers differs slightly across our different sourcing regions. In California, avocado growers are provided daily field quotes, on a per pound basis, for most fruit. These quotes are based on the variety, size, and grade of California avocados and are calculated based on our expectations of how much we believe we will sell the fruit for, less our anticipated costs and our desired margin. Ultimately, we pay/settle with our California growers once a month. The purchase price we pay for fruit acquired from Mexican growers is generally negotiated for substantially all the fruit in a particular grove. The Mexican avocado crop will typically have three to four blooms in a single year. Once a purchase price is tentatively agreed to, the fruit is then harvested and delivered to our packinghouses located in Mexico. We also purchase fruit directly from third-party Mexican packers as a supplemental source and that fruit is packed to our standards for shipment to either our customers' or our operating facilities. Peruvian and Colombian avocados are primarily handled on a consignment basis, in which the price we pay for the fruit is usually calculated as a percentage of the net selling price less certain charges for distribution and value-added services.

Apart from the cost of fruit and freight costs, which are generally passed on to our customer, significant portions of our avocado handling costs are fixed. As a result, significant fluctuations in the volume of avocados delivered have a considerable impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. As a result of our investment in packinghouse equipment, distribution centers with value-added ripening and packing capabilities, and personnel, we believe that our cost structure is geared to optimally handle larger avocado crops. We believe that our continued success in marketing avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices, and keeping the handling costs low as we ship avocados to

our packinghouses and distribution centers. We are subject to USDA, Mexican Secretary of Agriculture, Livestock, Rural Development, Fisheries and Food/Plant Protection (SAGARPA) and other regulatory inspections to ensure the safety and the quality of the fruit being delivered.

We have also developed a series of value-added programs that are designed to differentiate our products and services from those offered by our competitors. Some of these key programs are as follows:

- **Value-Added Ripening:** Retailers are continually demanding their avocados meet strict quality and ripeness specifications and we believe that our nationwide ripening infrastructure using the latest technology and experienced avocado handling workforce best position us to service those customers. We believe that ripened avocados help our customers address the consumers' immediate needs and accelerate the sale of avocados through their stores.
- **Value-Added Packaging:** We have developed various display techniques and packages that appeal to consumers and, in particular, impulse buyers. Some of our techniques include the bagging of avocados and the strategic display of the bags within the produce section of retail stores. Our research has demonstrated that consumers generally purchase a larger quantity of avocados when presented in a bag as opposed to the conventional bulk displays. We also believe that the value proposition of avocados in a bag provides for a higher level of sales to grocery stores.

The avocado market is highly competitive with over one hundred U.S. avocado marketers and/or importers, such as Calavo, seeking to source avocados from more than 25,000 independent, USDA certified growers worldwide. Based on the information we have from various industry sources, we believe that Calavo is consistently among the largest avocado marketers in the United States (US) from a volume, sales and profitability perspective. We attribute our solid position as one of the top avocado distributors to the competitiveness of the per pound returns we pay and the communication and service we maintain with our growers. In addition, we believe our diversified, product assortment, consistent product quality and value-added programs provide us with a competitive advantage in servicing retail and foodservice customers.

Our Fresh products business segment also markets and distributes select other perishable food products, such as tomatoes and papayas (Other Fresh Products). Tomatoes are primarily handled on a consigned basis, while papayas are handled on a pooling basis, generally at a fixed fee per papaya delivered. Sales of our Other Fresh Products generally experience fluctuations related to seasonality. We believe our efforts in distributing our other various types of fruit complement our offerings of avocados.

#### **Calavo Foods**

The Calavo Foods segment was originally conceived as a mechanism to stabilize the price of California avocados by reducing the volume of fresh, whole avocados available to the marketplace. In the 1960s and early 1970s, we pioneered the process of freezing avocado pulp and developed a wide variety of guacamole recipes to address the diverse tastes of consumers and buyers in both the retail and foodservice industries. One of the key benefits of frozen products is their relatively longer shelf-life. With the introduction of low cost processed products delivered from Mexican based processors and the growing customer demand for more prepared avocado products, we shifted the fruit procurement and pulp processing functions of our Calavo Foods segment to Mexico.

We utilize ultra-high pressure technology equipment, which is designed to protect and safeguard foods, without the need of preservatives, on all of our prepared avocado and guacamole products. This procedure substantially destroys the cells of any bacteria that could lead to spoilage, food safety, or oxidation issues, without affecting the taste profile of the finished product. Once the procedure is complete, our packaged guacamole can be frozen to ensure a longer shelf-life or shipped fresh to various retail, club, and foodservice customers throughout the markets we service in the U.S and abroad. While the majority of our Calavo Foods products are produced in our Uruapan, Mexico production facility, we also often utilize high-quality co-packers (using similar ultra-high pressure technology) from time-to-time, to produce several of our retail and foodservice products. Co-packers are required to source from USDA certified growers, and comply with all local and U.S. rules and regulations.

For fiscal 2020, we believe our capacity will be sufficient for our expected growth due to a combination of production-enhancing initiatives at our facility and the further development of our network of co-packers. Net sales of our fresh, refrigerated (non-frozen) products, typically sold to retail customers, represented approximately 63% and 62% of total guacamole sales within the Calavo Foods segment for the years ended October 31, 2020 and 2019. The remaining sales of Calavo Foods consist primarily of frozen products.

Sales in the U.S. and Canada are made principally through a commissioned nationwide broker network, which is supported by our regional sales managers. We believe that our marketing strength is distinguished by providing quality products, innovation, year-round product availability, strategically located warehouses, and market relationships.

## **RFG**

Acquired in June of 2011, Renaissance Food Group is a leader in the fast-growing refrigerated fresh packaged foods category. RFG creates, markets, and distributes nationally a portfolio of healthy, high quality fresh packaged food products for consumers via the retail and other channels, including national and regional supermarkets, club stores, mass merchandisers, convenience stores, and specialty/natural retailers. As a leader in refrigerated fresh packaged foods, RFG utilizes a network of company-operated and independently-operated USDA and organic certified fresh food facilities strategically located across the U.S. These facilities allow RFG to offer national retailers high quality, refrigerated fresh foods that can generally be delivered within hours from time of production. Consumer demand is high for quality refrigerated fresh packaged foods and RFG's speed to market, product innovation and broad product portfolio position the Company well to serve retailers addressing this consumer trend. RFG products include fresh-cut fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products, as well as ready-to-heat entrees and other hot bar and various deli items, meals kits and related components and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials brands, as well as store-brand, private label programs. Backed by Calavo's resources, the business unit continues to expand its footprint of company-operated manufacturing locations and to develop its customer relationships in the retail grocery channel.

## **Sales and Other Financial Information by Business Segment and Product Category**

Sales and other financial information by business segment are provided in Note 10 to our consolidated financial statements that are included in this Annual Report.

## **Customers**

We sell to retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesale customers. Our top ten customers accounted for approximately 56%, 59% and 59% of our consolidated net sales in fiscal years 2020, 2019 and 2018. Sales to our largest customer, Kroger (including its affiliates), represented approximately 18%, 21%, and 20% of net sales in each of fiscal years 2020, 2019, and 2018. Additionally, Wal-Mart (including its affiliates) represented approximately 12%, 13%, and 10% of net sales in fiscal years 2020, 2019, and 2018. No other single customer accounted for more than 10% of our net sales in any of the last three fiscal years.

## **Patents and Trademarks**

Our trademarks include the Calavo and RFG brand name and related logos. We also utilize the following trademarks in conducting our business: Avo Fresco, Bueno, Calavo Gold, Calavo Salsa Lisa, Salsa Lisa, Celebrate the Taste, El Dorado, Fresh Ripe, Select, Taste of Paradise, The First Name in Avocados, Tico, Mfresh, Maui Fresh International, Triggered Avocados, ProRipeVIP™, RIPE NOW!, Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials.

## **Working Capital Requirements**

Generally, we make payments to our avocado growers and other suppliers in advance of collecting all of the related accounts receivable. We generally bridge the timing between vendor payments and customer receipts by using operating

cash flows and commercial bank borrowings. In addition, from time to time we provide crop loans and other advances to some of our growers, which are also funded through operating cash flows and borrowings.

With respect to our Calavo Foods and RFG segments, we require working capital to finance the production of our prepared food products, building and maintaining an adequate supply of finished product, and collecting our accounts receivable balances. These working capital needs are financed through the use of operating cash flows and bank borrowings.

### **Backlog**

Our Fresh and RFG customers do not place product orders significantly in advance of the requested product delivery dates. Foods customers typically order perishable products one to ten days in advance of shipment, and typically order Calavo Foods within thirty days in advance of shipment.

### **Research and Development**

Our research and development for new and improved products, which is generally driven by customer requests, changes in product specifications, customer and market research and/or innovative ideas generated by our own team of experts with food processing and culinary backgrounds. We solicit customer and supplier input, review process and product trends and conduct sensory and shelf life testing, all to expand the category and drive new sales for our customers. Research and development costs are charged to expense when incurred. Total research and development costs for fiscal year 2020 was approximately \$0.7 million. For fiscal years 2019 and 2018 total research and development were less than \$0.1 million.

### **Compliance with Government Regulations**

As a manufacturer and marketer of consumable products, our operations are subject to extensive regulation by various federal government agencies, including the Food and Drug Administration (FDA), the USDA and the Federal Trade Commission (FTC), as well as state and local agencies, with respect to production processes, product attributes, packaging, labeling, storage and distribution. Under various statutes and regulations, these agencies prescribe requirements and establish standards for safety, purity and labeling. In addition, advertising of our products is subject to regulation by the FTC, and our operations are subject to certain health and safety regulations, including those issued under the Occupational Safety and Health Act (OSHA). Our packinghouse facilities and products are subject to periodic inspection by federal, state and local authorities, including the California State Department of Food and Agriculture (CFDA), which oversees weights & measures compliance at our California facilities. All of our US facilities are also in compliance the FDA's Food Safety Modernization Act (FSMA). In addition, our operations in Mexico are subject to Mexican regulations through the SAGARPA.

As a large importer of perishable products in the US, Calavo was an early adopter of the U.S. Customs & Border Protection's C-TPAT certification programs for monitoring and expediting all imports to the US.

Certain agricultural commodities sold by Calavo are subject to additional specific government acts or regulations, including the Hass Avocado Promotion, Research and Information Act of 2000 for our avocados and the federal suspension agreement guidelines which govern tomato imports to the US.

As a result of our agricultural and food processing activities, we are subject to numerous environmental laws and regulations. These laws and regulations govern the treatment, handling, storage and disposal of materials and waste and the remediation of contaminated properties.

We seek to comply at all times with all such laws and regulations and to obtain any necessary permits and licenses, and we are not aware of any instances of material non-compliance. We believe our facilities and practices are sufficient to maintain compliance with applicable governmental laws, regulations, permits and licenses.

## Employees

As of October 31, 2020, we had 3,971 employees, of which 1,834 were located in the United States and 2,137 were located in Mexico. We do not have a significant number of United States employees covered by a collective bargaining agreement. Approximately 1,900 of Calavo's Mexican employees are represented by a union. We consider the relationship with our employees to be good and we have never experienced a significant work stoppage.

The following is a summary of the number of "salaried" and "hourly" employees as of October 31, 2020.

Location	Salaried	Hourly	Total
United States	358	1,476	1,834
Mexico	215	1,922	2,137
<b>TOTAL</b>	<b>573</b>	<b>3,398</b>	<b>3,971</b>

### Item 1A. Risk Factors

*You should carefully consider the following risks and other information in this Form 10-K. Any of the following risks could materially and adversely affect our results of operations or financial conditions. The following risk factors should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the Consolidated Financial Statements and related notes in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K.*

#### Business and Operational Risks

*The COVID-19 pandemic and resulting worldwide economic conditions are adversely affecting, and will likely continue to adversely affect, our business operations, financial condition, results of operations, and cash flows and we are unable to predict the extent to which the global COVID-19 pandemic may continue to adversely impact our business operations, financial performance and results of operations.*

#### Manufacturing and Supply Chain Disruption—

Outbreaks of contagious diseases, including the ongoing COVID-19 outbreak and pandemic, and other adverse public health developments in countries and states where we operate, have had and are expected to continue to have an adverse effect on our business, financial condition and operational challenges in the manufacturing of our products and the operation of the related supply chains supporting our ability to deliver our products to the consumer. These effects include a potential negative impact on the availability of our key personnel; disruptions of our facilities or facilities of our members, business partners, customers, suppliers, third-party service providers or other vendors; and interruption of domestic and global supply chains, distribution channels, liquidity and capital or financial markets. We are actively monitoring COVID-19 impacts on our supply chain and distribution channels and restrictions on or disruptions of transportation or increased border controls or closures, or other impacts on domestic and global supply chains or distribution channels, could increase our costs for raw materials and commodity costs, increase demand for raw materials and commodities from competing purchasers, limit our ability to meet customer demand or otherwise have a material adverse effect on our business, financial condition, results of operation or cash flows.

In addition, we have taken and will continue to take temporary precautionary measures intended to help minimize the risk of COVID-19 to our employees, including implementation of health and safety measures to protect our employees, supplementing our workforce to compensate for employees disabled or temporarily unable to perform their duties, and temporary disruptions at certain of our manufacturing facilities, which could negatively affect our business. Some of these precautionary measures, and similar precautionary measures that we may take in the future, may result in additional costs. These conditions could lead to more prolonged disruptions and adverse financial impact in the future. The mandated shelter in place and social distancing measures which are we are required to follow create challenges for the successful operation of our facilities. These same measures also impact the ability of our vendors, suppliers, logistics providers, distributors, and customers, to ultimately support the delivery of our products to consumers.



#### Uncertain Future Consumer Demand –

While we have not experienced a significant loss of demand for our products during the COVID-19 pandemic, continued economic deterioration in the markets in which our products are sold, including unemployment, reductions in disposable income, declining consumer confidence, and perception of our products as non-essential, could result in future declines in the demand for our products. Further, COVID-19 has resulted in a widespread health crisis that has affected and is expected to continue to adversely affect the economies and financial markets of many countries and most areas of the United States, which may affect our ability to obtain additional financing for our businesses and demand for our products and services.

#### Costs to confront the COVID-19 Pandemic –

We have incurred and may be required to continue to incur for an indeterminable period, increased costs related to overtime and sick pay, government mandated employee leave related to pandemic conditions, incremental pay for working under challenging conditions, temporary employees, temporary facility closures, sanitizing the work environment, and overall increased safety measures. Our operating results may be adversely affected if we fail to adequately manage these costs or if we experience significant unexpected costs in the future.

The ultimate impact of the COVID-19 pandemic on our operations and financial performance depends on many factors that are not within our control. If we are unable to successfully manage our business through the challenges and uncertainty created by the COVID-19 pandemic, our business and operating results could be materially adversely affected.

*If the COVID-19 pandemic results in a prolonged adverse impact on our operating results, our goodwill and other intangibles assets may be at risk of future impairment.*

We have significant goodwill and intangibles balances recorded with respect to our RFG reporting unit, which we periodically review for impairment. These assets are sensitive to any significant changes in related results of operations of the underlying businesses. The COVID-19 pandemic has had adverse effects on the RFG, although no impairment of the related goodwill and intangibles balances has occurred during the year ended October 31, 2020. However, we cannot predict the effects that any continued adverse conditions from the pandemic may have on the future impairment of these assets.

*Due to the seasonality of the business, our revenue and operating results may vary from quarter to quarter.*

Our earnings may be affected by seasonal factors, including:

- the availability, quality and price of raw materials (including, but not limited to fruit and vegetable inputs);
- the timing and effects of ripening and perishability;
- the ability to process perishable raw materials in a timely manner;
- the leveraging of certain fixed overhead costs during off-season months; and
- the slight impacts on consumer demand based on seasonal and holiday timing.

*Our earnings are sensitive to fluctuations in market prices and demand for our products.*

Excess supplies often cause severe price competition in our industry. Growing conditions in various parts of the world, particularly weather conditions such as rainfall, hailstorms, windstorms, floods, droughts, wildfires and freezes, as well as diseases and pests, are primary factors affecting market prices because of their influence on the supply and quality of product.

Fresh produce is highly perishable and generally must be brought to market and sold soon after harvest. The selling price received for each type of produce depends on all of these factors, including the availability and quality of the produce item in the market, and the availability and quality of competing types of produce.

In addition, general public perceptions regarding the quality, safety or health risks associated with particular food products could reduce demand and prices for some of our products. Food safety warnings, advisories, notices and recalls such as those administered by the FDA, CDC, other federal/state government agencies and/or suppliers of various agricultural products, could also reduce demand and/or prices for some of our products. To the extent that consumers evolve away from products that we produce for health, food safety or other reasons, and we are unable to modify our products or to develop products that satisfy new consumer preferences, there will be a decreased demand for our products.

*Increases in commodity or raw product input costs, such as fuel, packaging, and paper, could adversely affect our operating results.*

Many factors may affect the cost and supply of fresh produce, including external conditions, commodity market fluctuations, currency fluctuations, changes in governmental laws and regulations, agricultural programs, severe and prolonged weather conditions and natural disasters. Increased costs for purchased fruit have in the past negatively impacted our operating results, and there can be no assurance that they will not adversely affect our operating results in the future.

The price of various commodities can significantly affect our costs. Fuel and transportation cost is a significant component of the price of much of the produce that we purchase from growers, and there can be no assurance that we will be able to pass on to our customers any increased costs we incur in these respects.

The cost of paper is also significant to us because most of our products are packed in cardboard boxes. If the price of paper increases and we are not able to effectively pass these price increases along to our customers, then our operating income will decrease.

*We depend on our infrastructure to have sufficient capacity to handle our annual production needs.*

We have an infrastructure that has sufficient capacity for our production needs, but if we lose machinery or facilities due to natural disasters or mechanical failure, we may not be able to operate at a sufficient capacity to meet our production needs. This could have a material adverse effect on our business, which could impact our results of operations and our financial condition.

*Failure to optimize our supply chain or disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.*

In coordination with our suppliers, our ability to make, move and sell products is critical to our success. Our inability to maintain sufficient internal production capacity or our inability to enter into co-packing agreements on terms that are beneficial to the Company could have an adverse effect on our business. Failure to adequately handle increasing production costs and complexity, turnover of manufacturing personnel, or production capability and efficiency issues could materially impact our ability to cost effectively produce our products and meet customer demand.

Additionally, damage or disruption to our collective manufacturing or distribution capabilities resulting from weather, any potential effects of climate change, natural disaster, disease, crop spoilage, fire or explosion, terrorism, organized crime, pandemics, strikes, repairs or enhancements at our facilities, or other reasons, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, and may require additional resources to restore our supply chain.

*Disruption of the supply or reliability of low cost transportation services and/or significant increases in the cost of these services could impact our operating income.*

We use multiple forms of transportation to bring our products to market. They include truck, ocean, and air-cargo. Disruption to the timely supply of these services or dramatic increases in the cost of these services for any reason including availability of fuel for such services, labor disputes, governmental regulation, or governmental restrictions

limiting specific forms of transportation could have an adverse effect on our ability to serve our customers and consumers and could have an adverse effect on our financial performance.

*The acquisition of other businesses could pose risks to our operating income.*

We intend to review acquisition prospects that would complement our business. While we are not currently a party to any definitive agreement with respect to any acquisitions, we may acquire other businesses in the future. Future acquisitions by us could result in accounting charges, potentially dilutive issuances of equity securities, and increased debt and contingent liabilities, any of which could have a material adverse effect on our business and the market price of our common stock. Acquisitions entail numerous risks, including the integration of the acquired operations, diversion of management's attention to other business concerns, risks of entering markets in which we have limited prior experience, and the potential loss of key employees of acquired organizations. We may be unable to successfully integrate businesses or the personnel of any business that might be acquired in the future, and our failure to do so could have a material adverse effect on our business and on the market price of our common stock. Management's attention, or other resources, may be diverted if we fail to successfully complete or integrate business combination and investment transactions that further our strategic objectives.

*System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations or services provided to customers, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.*

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions. Calavo carries insurance, including cyber insurance, commensurate with its size and the nature of its operations, although there is no certainty that such insurance will in all cases be sufficient to fully reimburse us for all losses incurred in connection with the occurrence of any of these system security risks, data protection breaches, cyber-attacks or other events.

On Friday, November 29, 2019, certain computer systems at Calavo became encrypted by ransomware, which prevented them from operating. We immediately took steps to isolate those systems and implemented measures to prevent additional systems from being affected, including taking systems offline as a precaution. Third party forensic experts were engaged to assist our IT team to restore those affected systems to operation. We have not experienced, nor do we believe there has been, any material impact to divisional operating activities nor our controls over financial reporting. To date, we have found no evidence of data exfiltration or misappropriation.

Portions of our IT infrastructure may also experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes.

*The loss of one or more of our largest customers, or a reduction in the level of purchases made by these customers, could negatively impact our sales and profits.*

Sales to Kroger and Walmart, our largest customers, amounted to approximately 21% and 13% of our total net sales in 2019. We expect that a significant portion of our revenues will continue to be derived from a relatively small number of customers. We believe these customers make purchase decisions based on a combination of price, product quality,

consumer demand, customer service performance, desired inventory levels and other factors that may be important to them at the time the purchase decisions are made. Changes in our customers' strategies or purchasing patterns, including a reduction in the number of brands they carry, may adversely affect our sales. Additionally, our customers may face financial or other difficulties which may impact their operations and cause them to reduce their level of purchases from us, which could adversely affect our results of operations. Customers also may respond to any price increase that we may implement by reducing their purchases from us, resulting in reduced sales of our products. If sales of our products to one or more of our largest customers are reduced, this reduction may have a material adverse effect on our business, financial condition, and results of operations. Any bankruptcy or other business disruption involving one of our significant customers also could adversely affect our results of operations.

### **Human Capital Risks**

*We depend on our key personnel and if we lose the services of any of these individuals, or fail to attract and retain additional key personnel, we may not be able to implement our business strategy or operate our business effectively.*

Our future success largely depends on the contributions of our management team. We believe that these individuals' expertise and knowledge about our industry and their respective fields and their relationships with other individuals in our industry are critical factors to our continued growth and success. We do not carry key person insurance. The loss of the services of any member of our senior management team could have a material adverse effect on our business and prospects. Our success also depends upon our ability to attract and retain additional qualified sales, marketing and other personnel.

*We have recently transitioned new personnel into executive leadership positions and our future success will depend in part on our ability to manage this transition successfully.*

Replacing departing executives can involve organizational disruption and uncertainty. If we fail to manage this transition successfully, we could experience significant delays or difficulty in the achievement of our development and strategic objectives and our business, financial condition and results of operations could be materially and adversely harmed.

*A portion of our workforce is unionized and labor disruptions could decrease our profitability.*

While we believe that our relations with our employees and labor unions are good, we cannot ensure that we will be able to negotiate collective bargaining agreements on favorable terms, or at all, and without production interruptions, including labor stoppages. A prolonged labor dispute, which could include a work stoppage, could have a material adverse effect on the portion of our business affected by the dispute, which could impact our business, results of operations and financial condition.

*We rely on co-packers for a portion of our production needs.*

We utilize high-quality co-packers to produce a portion of our retail and foodservice products. If we are unable to utilize quality co-packers effectively, we may not be able to meet our production needs for our expected growth. Similar, if an existing co-packer is no longer able or willing to produce products for us, there are no assurances that we will be able to immediately replace them with our own production capacity or that of another co-packer operating in the same region and at the same level of quality. We closely monitor and audit the quality of our co-packers; and furthermore, our co-packers are required to maintain insurance. But we are still subject to risks related to the production of fresh and processed foods.

## Industry Risks

*We are subject to increasing competition that may adversely affect our operating results.*

The fresh produce and prepared food markets in which we operate are highly competitive. Each of our businesses is subject to competitive pressures, including the following:

- The market for avocados is impacted by an increasing volume of foreign grown avocados being imported into the United States. Recently, there have been significant plantings of avocados in Mexico, Chile, the Dominican Republic, Peru, Colombia and other parts of the world, which have had, and will continue to have, the effect of increasing the volume of foreign grown avocados entering the United States market.
- Avocados are subject to competition from other avocado handlers. If we are unable to consistently pay growers a competitive price for their avocados, these growers may choose to have their avocados marketed by alternate handlers.
- Mexican sourced avocados and perishable food products are impacted by competitors operating in Mexico. Generally, handlers of Mexican grown avocados operate facilities that are substantially smaller than our facility in Uruapan, Mexico. If we are unable to pack and market a sufficient volume of Mexican grown avocados, smaller handlers will have a lower per unit cost and be able to offer Mexican avocados at a more competitive price to our customers.
- The fresh-cut produce market is highly fragmented and we compete with a variety of national, regional and local manufacturers and distributors of fresh-cut produce in the geographies that we serve. These competitors include both branded and non-branded producers, as well as certain retailers' own in-house fresh-cut operations. To compete successfully, we must be able to strategically source a wide array of fresh produce and prepared food items of uniformly high quality and sell and distribute it on a timely and regular basis. The overall availability and quality of produce items that we purchase for processing can have a meaningful impact on both RFG's sales and profitability. Additionally, the short-shelf life nature of these products makes this business highly localized and our success is often related to our ability to manufacture those products within close proximity to our customers' locations.

*A recall of our products could have a material adverse effect on our business. In addition, we may be subject to significant liability claims should the consumption of any of our products cause injury, illness or death.*

The sale of food products for human consumption involves the risk of injury to consumers. Such injuries may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling or transportation phases. While we are subject to governmental inspection and regulations and believe our facilities comply in all material respects with all applicable laws and regulations, we cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image.

*We and our growers are subject to the risks that are inherent in farming.*

Our results of operations may be adversely affected by numerous factors over which we have little or no control and that are inherent in farming, including reductions in the market prices for our products, adverse weather (including but not limited to drought, high winds, earthquakes and/or wildfire) and growing conditions, pest and disease problems, and new government regulations regarding farming and the marketing of agricultural products.

*Demand for our products is subject to changing consumer preferences.*

Consumer preferences for particular food products are subject to fluctuations over time. Our ability to market and sell our products successfully depends in part on our ability to identify changing consumer preferences and respond to those changes by offering products that appeal broadly to consumers in light of current demands. Shifts in consumer

preferences that can impact demand for our products at any given time can result from a number of factors, including dietary trends, attention to particular nutritional aspects of our products, concerns regarding the health effects of particular ingredients, attention given to ingredient sourcing practices and general public perception of food safety risks. Consumer demand for our products also may be impacted by any public commentary that consumers or certain regulatory bodies (including federal/state agencies involved in monitoring food safety) may make regarding our products or similar products. Consumer demand for our products also may be impacted by changes in the level of advertising or promotional support that are employed by (i) us, (ii) our retail/foodservice customers, or (iii) relevant industry groups or third parties that provide competing products. If consumer preferences trend negatively with respect to any one or more of our products, our sales volumes may decline as a result.

## **Regulatory Risks**

*Environmental and other regulation of our business, including potential climate change regulation, could adversely impact us by increasing our production cost or restricting our ability to import certain products into the United States.*

Climate change serves as a risk multiplier increasing both the frequency and severity of natural disasters that may affect our business operations. Moreover, there has been a broad range of proposed and promulgated state, national and international regulation aimed at reducing the effects of climate change. Such regulations apply or could apply in countries where we have interests or could have interests in the future. In the United States, there is a significant possibility that some form of regulation will be enacted at the federal level to address the effects of climate change. Such regulation could take several forms that could result in additional costs in the form of taxes, the restriction of output, investments of capital to maintain compliance with laws and regulations, or required acquisition or trading of emission allowances. Climate change regulation continues to evolve, and it is not possible to accurately estimate either a timetable for implementation or our future compliance costs relating to implementation.

*Unanticipated changes in U.S. or international tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our financial performance.*

We are subject to taxes in the U.S. and Mexico. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. Our effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation.

We are also subject to the examination of our tax returns and other tax matters by the U.S. Internal Revenue Service (the IRS), the Servicio de Administracion Tributaria in Mexico (the SAT) and other tax authorities. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of our provision for taxes. There can be no assurance that we will accurately predict the outcomes of any audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows.. If our effective tax rates were to increase, or if the ultimate determination of our taxes owed is for an amount in excess of amounts previously accrued, our financial condition, operating results and cash flows could be adversely affected.

*We are subject to possible changing USDA and FDA regulations which govern the importation of foreign avocados into the United States and the processing of processed avocado products.*

The USDA has established, and continues to modify, regulations governing the importation of avocados into the United States. Our permits that allow us to import foreign-sourced avocados into the United States generally are contingent on our compliance with these regulations. Our results of operations may be adversely affected if we are unable to comply with existing and modified regulations and are unable to secure avocado import permits in the future.

The FDA establishes, and continues to modify, regulations governing the production of processed avocado products, such as the new Food Safety Modernization Act, which implements mandatory preventive controls for food facilities and compliance with mandatory produce safety standards. Our results of operations may be adversely affected if we are

unable to comply with these existing and modified regulations. Such failures could also cause reputational damage to our business.

## **International Risks**

*We work with international third-party suppliers and partners, and our financial results could suffer due to unfavorable international events or regulations.*

We conduct a substantial amount of business with growers and customers who are located outside the United States. We purchase avocados from foreign growers and packers, sell fresh avocados and processed avocado products to foreign customers, and operate packinghouses and a processing plant in Mexico. In the most recent years, there has been an increase in organized crime in Mexico. This has not had a significant impact on our operations, but this does increase the risk of doing business in Mexico. We are also subject to regulations imposed by the Mexican government, and also to examinations by the Mexican tax authorities. Significant changes to these government regulations and to assessments by the Mexican tax authorities can have a negative impact on our operations and operating results in Mexico. For additional information about our Mexican sourced fruit, see the "Business" section included in this Annual Report.

Our current international operations are subject to a number of inherent risks, including:

- Local economic and political conditions, including disruptions in supply, labor, transportation (the transport of consumer goods), trading and capital markets;
- Restrictive U.S. and foreign governmental actions, such as restrictions on transfers of funds and trade protection measures, including import/export duties and quotas and customs duties and tariffs; and
- Changes in legal or regulatory requirements affecting foreign investment, loans, taxes (including value-added taxes), imports, and exports.

*Currency exchange fluctuations may impact the results of our operations.*

Currency exchange rate fluctuations, depending upon the nature of the changes, may make our domestic-sourced products more expensive compared to foreign grown products or may increase our cost of obtaining foreign-sourced products. These foreign currency fluctuations also affect the ultimate realization of foreign currency denominated assets and liabilities in US dollar terms. Because we do not hedge against our foreign currency exposure, our business has increased susceptibility to foreign currency fluctuations.

## **Financial Risks**

*Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy.*

The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on many factors, including:

- Market acceptance of our products; and
- The existence of opportunities for expansion.

If our capital resources are not sufficient to satisfy our liquidity needs, we may seek to sell additional equity or obtain additional debt financing. The sale of additional equity would result in dilution to our shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations. Although we do not currently foresee the need for significant additional financing, with the exception of our existing credit facility, and we have not made arrangements to obtain additional financing, we may not be able to obtain additional financing, if required, in amounts or on terms acceptable to us, or at all.

*Our ownership in unconsolidated subsidiaries, our loans/notes or advances to unconsolidated subsidiaries and other future debt or equity investments that we may make in unconsolidated subsidiaries, present a number of risks and challenges that could have a material adverse effect on our business, financial position and results of operations.*

Income/(loss) from unconsolidated entities includes our allocation of earnings or losses from our investments in FreshRealm and Don Memo. We do not control the operations of these investments, and our allocation of potential income or loss can increase or decrease our overall profitability significantly.

On May 20, 2020, the SEC issued a final rule regarding the financial statement requirements for acquisitions and dispositions of a business, which included, among other things, amending (1) certain criteria in the significance tests for equity method investees, such as introducing a revenue component when calculating the income test, (ii) related pro forma financial information requirements including its form and content, and (iii) related disclosure requirements, including the number of acquiree financial statement periods required to be presented in SEC filings. The final rule is effective for fiscal years beginning after December 31, 2020, with early application permitted. The Company determined to adopt this SEC final rule as of October 31, 2020, and as a result, the Company's investment in FreshRealm was no longer considered a significant subsidiary.

In fiscal 2019, we implemented an Accounting Standards Update (ASU) 2016-01, *Financial Instruments, Recognition and Measurement of Financial Assets and Liabilities*, which requires equity investments (except those accounted for under the equity method of accounting, such as FreshRealm and Don Memo) to be measured at fair value with changes in fair value recognized in net income. This adoption impacted our equity investment in Limoneira Company (Limoneira); and as a result, fluctuations in the Limoneira stock price (to be measured, as per the ASU, from quarter-end to quarter-end) are reflected as unrealized gain/(loss) on equity securities in our income statement, and therefore, increase or decrease our overall profitability significantly. Furthermore, from time-to-time we may choose to buy or sell Limoneira shares via methods of execution that are available to us; and to the extent we buy or sell stock in Limoneira, we may also report realized gain/(loss) on equity securities.

Any loans/notes or advances that we make to unconsolidated entities (such as the existing advances to Don Memo) may at some point in the future be deemed uncollectible and as such may negatively impact, in a material way, our financial results in the period such determination is made. As noted earlier, we do not control the operations of FreshRealm or Don Memo, and their future operating performance and/or their future ability to raise capital from other third parties, could negatively impact our ability to collect on our loans/notes or advances.

We have recorded an impairment of 100% of our equity investment in FreshRealm of \$2.8 million, and we have recorded a reserve for collectability of 100% of our note receivable balance from FreshRealm of \$34.2 million (which includes accrued interest of \$4.1 million), and \$0.3 million in trade accounts receivable as of October 31, 2020, which resulted in a loss of \$37.3 million, which is included in the accompanying consolidated statement of operations under "Loss on reserve for FreshRealm note receivable and impairment of investment".

## **General Risks**

*The value of our common stock may be adversely affected by market volatility and our common stock price has fluctuated and may continue to fluctuate, which may make future prices of our common stock difficult to predict.*

Investors should not rely on recent or historical trends to predict future stock prices, financial condition, results of operations or cash flows. Our common stock price, like that of other companies, can be volatile and can be affected by, by many factors, including:

- Our operating and financial performance and prospects;
- Announcements and public SEC filings we make about our business, financial performance and prospects;
- Announcements our customers or competitors make regarding their business, financial performance and prospects;
- Short-interest in our common stock, which may be significant from time-to-time;
- The depth and liquidity of the market for our common stock;



- Investor perception of us and the industry and markets in which we operate;
- Our inclusion in, or removal from, any equity market indices;
- Changes in earnings estimates or buy/sell recommendations by analysts;
- Whether or not we meet earnings estimates of analysts who follow our Company;
- Competitors in common markets; and
- General financial, domestic, international, economic, industry and other market trends or conditions.

*Our performance may be impacted by general economic conditions or an economic downturn.*

An overall decline in economic activity could adversely impact our business and financial results. Economic uncertainty may reduce consumer spending as consumers make decisions on what to include in their food budgets. This could also result in a shift in consumer preference. Shifts in consumer spending could result in increased pressure from competitors or customers that may require us to increase promotional spending or reduce the prices of some of our products and/or limit our ability to increase or maintain prices, which could lower our revenue and profitability. Instability in financial markets may impact our ability, or increase the cost, to enter into new credit agreements in the future. Additionally, it may weaken the ability of our customers, suppliers, third-party distributors, banks, insurance companies and other business partners to perform their obligations in the normal course of business, which could expose us to losses or disrupt the supply of inputs we rely upon to conduct our business. If one or more of our key business partners fail to perform as expected or contracted for any reason, our business could be negatively impacted.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We lease our corporate headquarters building from Limoneira, which building is located in Santa Paula, California. In addition, RFG leases its corporate office in Rancho Cordova, California. We have numerous facilities throughout the United States and three facilities in Mexico. See the following table for a summary of our locations:

***United States Locations:***

***Packinghouses:***

<b>Leased or Owned:</b>	<b>City</b>	<b>State</b>	<b>Description</b>
Owned	Santa Paula	California	Primarily handles fresh avocados. The facility was purchased in 1955 and has been improved in capacity and efficiency since then. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Temecula	California	Primarily ripens, sorts, packs and ships fresh avocados. We sort and pack certain other fresh products as well. We sold this facility in 2019 and leased back a portion of it.

**Operating and Distributing Facilities:**

<b>Leased or Owned:</b>	<b>City</b>	<b>State</b>	<b>Description</b>
Owned	Santa Paula	California	Primarily ripens, sorts, packs and ships fresh avocados. We sort and pack certain other fresh products as well. We believe that the annual capacity of this facility will be sufficient to pack and ripen, if necessary, its expected annual volume of avocados and other fresh products delivered to us.
Leased	Swedesboro	New Jersey	Primarily ripens, sorts, packs, and ships avocados. Additionally, it also serves to store and ship certain other fresh products, as well as prepared foods and prepared guacamole products. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Garland	Texas	Primarily ripens, sorts, packs and ships fresh avocados. Additionally, it also serves to store and ship prepared guacamole products as well. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Green Cove Springs	Florida	Primarily ripens, sorts, packs and ships fresh avocados and stores and ships prepared guacamole. This facility also processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Hilo	Hawaii	Primarily sorts, packs, and ships papayas. We believe that the annual capacity will be sufficient to handle its forecasted annual production needs.
Owned	Hilo	Hawaii	Primarily provides irradiation services for produce grown in Hawaii. We believe that the annual capacity will be sufficient to handle its forecasted annual production needs.
Leased	St. Paul	Minnesota	Calavo Salsa Lisa (CSL) facility that produces salsa. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Houston	Texas	RFG facility that primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Owned	Riverside	California	RFG facility that primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Sacramento	California	RFG facility that primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.

<b>Leased or Owned:</b>	<b>City</b>	<b>State</b>	<b>Description</b>
Leased	Clackamas	Oregon	Opened in the fourth quarter of fiscal 2019, this RFG facility primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Conley	Georgia	Opened in the third quarter of fiscal 2019, this RFG facility primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.

**Mexico Locations:**

**Packinghouses and Processing Facility:**

<b>Leased or Owned:</b>	<b>City</b>	<b>State</b>	<b>Description</b>
Owned	Uruapan	Michoacan	Our Calavo Foods processing facility produces our guacamole products. While we believe the capacity is reasonable given our current sales, we are considering various plans to enhance our production capacity.
Owned	Uruapan	Michoacan	Primarily handles fresh avocados. The facility was built in 1985 and has been significantly and continually improved in capacity and efficiency since then. We believe that the annual capacity of this facility will be sufficient to process its forecasted annual production needs.
Owned	Ciudad Guzman	Jalisco	Opened in the third quarter of 2017, this facility primarily handles fresh avocados. We believe that the annual capacity of this facility will be sufficient to process its forecasted annual production needs.

**Item 3. Legal Proceedings**

See Note 7 of our consolidated financial statements for further information.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Executive Officers of the Registrant**

The following table sets forth the name, age and position of individuals who hold positions as executive officers of our company. There are no family relationships between any director or executive officer and any other director or executive officer of our company. Executive officers are elected by our board of directors and serve at the discretion of the board.

<b>Name</b>	<b>Age</b>	<b>Position</b>
James Gibson	58	Chief Executive Officer
Kevin Manion	62	Chief Financial Officer
Mark Lodge	53	Chief Operations Officer
Robert Wedin	71	Executive Vice President, Fresh Sales
Ronald Araiza	61	Vice President, Foods Operations

*James Gibson* has served as our Chief Executive Officer since February 2020. Prior to his recent appointment as Chief Executive Officer, Mr. Gibson served as President of RFG from November 2017 to January 2020 and previously served as Chief Operating Officer and a founding member of RFG from March 2003 to November 2017.

*Kevin Manion* has served as our Chief Financial Officer since May 2020. Prior to his recent appointment as Chief Financial Officer, Mr. Manion held financial leadership positions with companies including Century Snacks, Young's Market Company, Bolthouse Farms, Hostess Brands, Nestle USA and Kraft General Foods. Mr. Manion served as Chief Financial officer of Centre for Neuro Skills from January 2019 to April 2020, Chief Financial Officer of Green Dot Corporation from October 2016 to January 2019, and Chief Financial Officer of New Century Snacks/Snak Club from March 2015 to October 2016. Mr. Manion began his career in public accounting at Arthur Andersen & Co.

*Mark Lodge* has served as our Chief Operations Officer since August 2020. From October 2019 to August 2020, Mr. Lodge has served as Executive Vice President of RFG Business Operations. Prior to joining Calavo, Mr. Lodge held the role of Executive Vice President from May 2017 to October 2019 for Revolution Foods supplying all-natural school meals across the United States. Prior to Revolution Foods, Mr. Lodge was President of True Fresh HPP and True Food Innovations from January 2016 to February 2017 and was previously instrumental in the identification and implementation of the Fresh & Easy manufacturing business in the United States for Tesco, plc.

*Robert Wedin* has served as our Executive Vice President since August 2020, and prior was Vice President since 1993. Mr. Wedin joined us in 1973 at our then Santa Barbara packinghouse. Beginning in 1990, Mr. Wedin served as a director of the California Avocado Commission for a period of ten years. Mr. Wedin currently is a board member of ProduceSupply.org and serves as a member of that organization's executive committee.

*Ronald Araiza* has served as our Vice President since January 2017. Mr. Araiza served as Vice President at Del Rey Avocado from January 2015 to January 2016. He also served as Vice President at Mission Produce from January 1997 to May of 2015.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

In March 2002, our common stock began trading on the OTC Bulletin Board under the symbol "CVGW." In July 2002, our common stock began trading on the Nasdaq National Market under the symbol "CVGW" and currently trades on the Nasdaq Global Select Market.

The following tables set forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the Nasdaq Global Select Market.

<b>Fiscal 2020</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 94.37	\$ 76.61
Second Quarter	\$ 77.71	\$ 51.07
Third Quarter	\$ 64.70	\$ 52.94
Fourth Quarter	\$ 69.73	\$ 57.04
<b>Fiscal 2019</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 99.90	\$ 70.57
Second Quarter	\$ 94.57	\$ 75.59
Third Quarter	\$ 97.65	\$ 84.88
Fourth Quarter	\$ 97.24	\$ 84.93

As of November 30, 2020, there were approximately 779 stockholders of record of our common stock.

**Dividend Policy**

Our dividend policy is to provide for an annual dividend payment, as determined by the Board of Directors. We generally pay an annual dividend in the first quarter of our fiscal year.

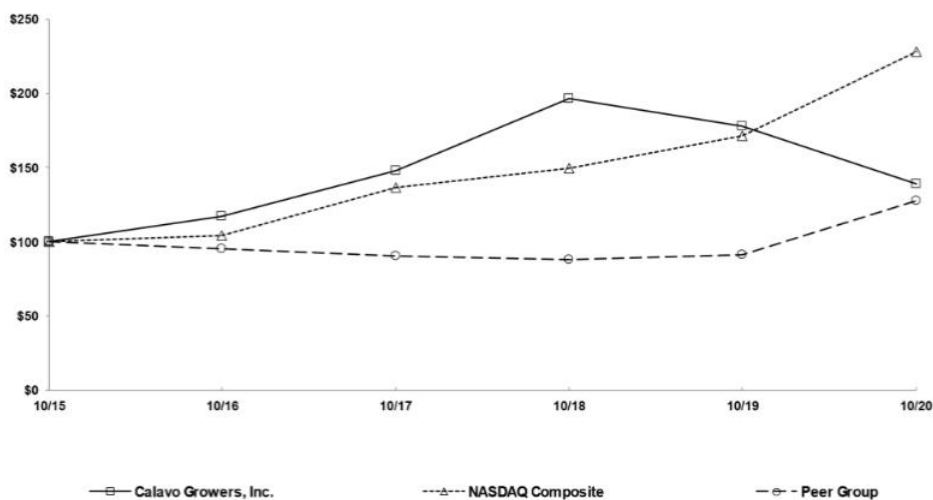
On October 26, 2020, we declared a dividend of \$1.15 per share. On December 4, 2020, we paid the aggregate amount of \$20.3 million to shareholders of record on November 13, 2020. On December 6, 2019, we paid a \$1.10 per share dividend in the aggregate amount of \$19.4 million to shareholders of record on November 15, 2019.

## Shareholder Return Performance Graph

The following graph compares the performance of our common stock with the performance of the Nasdaq Market Index and a Peer Group of major diversified companies in our same industry for approximately the 60-month period beginning October 31, 2015 and ending October 31, 2020. In making this comparison, we have assumed an investment of \$100 in Calavo Growers, Inc. common stock, the Nasdaq Market Index, the Peer Group Index as of October 31, 2015. We have also assumed the reinvestment of all dividends. Our Peer Group Index includes the companies of: Andersons, Inc., B&G Foods, Inc., Boston Beer Company, Inc., Fresh Del Monte Produce, Inc., Hain Celestial Group, Inc., Hostess Brands, Inc., J&J Snack Foods, Corp., John B Sanfilippo & Son, Inc., and Landec, Corp.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Calavo Growers, Inc., the NASDAQ Composite Index, and a Peer Group



\*\$100 invested on 10/31/15 in stock or index, including reinvestment of dividends.  
Fiscal year ending October 31.

	10/31/15	10/31/16	10/31/17	10/31/18	10/31/19	10/31/20
Calavo Growers, Inc.	100.00	116.86	147.63	196.82	177.80	139.42
NASDAQ Composite	100.00	103.97	136.34	149.61	171.71	228.10
Peer Group	100.00	95.71	90.44	87.74	91.03	127.43

**Item 6. Selected Financial Data**
**SELECTED CONSOLIDATED FINANCIAL DATA**

The following summary of consolidated financial data (other than information regarding the volume of products sold) for each of the years in the five-year period ended October 31, 2020, are derived from the audited consolidated financial statements of Calavo Growers, Inc.

Historical results are not necessarily indicative of results that may be expected in any future period. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto that are included elsewhere in this Annual Report.

	Fiscal Year Ended October 31,				
	2020	2019	2018	2017	2016
(In thousands, except per share data)					
<b>Statement of Operations Data: (1)(2)(4)(6)(8)</b>					
Net sales	\$ 1,059,371	\$ 1,195,777	\$ 1,088,758	\$ 1,075,565	\$ 935,679
Gross profit	89,898	128,082	113,616	114,544	107,534
Selling, general and administrative	57,952	59,113	57,081	56,651	46,440
Net income (loss) attributable to Calavo Growers, Inc.	(13,625)	36,646	32,281	37,270	38,022
Basic net income (loss) per share	\$ (0.78)	\$ 2.09	\$ 1.85	\$ 2.14	\$ 2.19
Diluted net income (loss) per share	\$ (0.78)	\$ 2.08	\$ 1.84	\$ 2.13	\$ 2.18
Adjusted EBITDA (see MD&A for calc)	54,384	87,258	75,038	73,329	70,987
Adjusted EBITDA per share	3.10	4.96	4.27	4.19	4.07
<b>Balance Sheet Data as of End of Period:</b>					
Working capital	\$ 29,564	\$ 36,886	\$ 29,567	\$ 3,661	\$ 25,612
Total assets (4) (5) (6) (7) (8) (9)	429,624	390,360	367,736	364,117	327,933
Accrued expenses	36,922	39,629	38,521	39,946	31,095
Current portion of long-term obligations (4) (5)	1,343	762	118	129	138
Long-term obligations, less current portion (4) (5)	5,716	5,412	314	439	445
Shareholders' equity	256,002	285,869	264,959	244,122	215,069
<b>Cash Flows Provided by (Used in):</b>					
Operations	\$ 28,878	\$ 72,099	\$ 48,426	\$ 62,140	\$ 61,968
Investing activities (2)(3)(4)(5)(9)	(31,931)	(31,850)	(30,204)	(53,668)	(21,731)
Financing activities (3)	(865)	(33,796)	(23,327)	(15,689)	(33,566)
<b>Other Data:</b>					
Cash dividends declared per share	\$ 1.15	\$ 1.10	\$ 1.00	\$ 0.95	\$ 0.90
Net book value per share	\$ 14.61	\$ 16.23	\$ 15.11	\$ 13.92	\$ 12.33
Pounds of avocados sold	379,910	354,754	357,013	299,338	387,745
Pounds of processed avocados products sold	25,480	32,016	32,333	29,911	26,773
Average sales price per pound - avocados	1.37	1.60	1.43	1.82	1.27
Gross profit per pound - avocados	0.11	0.23	0.14	0.23	0.14
Average sales price per pound - processed products	2.84	2.86	2.63	2.36	2.24
Gross profit per pound - processed products	0.82	0.65	0.81	0.44	0.83

- (1) During fiscal 2020, 2019 and 2018, we have recognized \$7.2 million, \$14.1 million and \$12.0 million in losses from FreshRealm, which has been recorded as losses from unconsolidated entities.
- (2) During fiscal 2020, 2018, 2017 and 2016, we contributed \$1.5 million, \$3.5 million, \$7.5 million and \$3.2 million as investments in FreshRealm. Our total investment of \$5.8 million, \$19.9 million, \$28.4 million and \$21.0 million in FreshRealm as of October 31, 2019, 2018, 2017 and 2016, has been recorded as investment in unconsolidated subsidiaries on our balance sheet. During fiscal 2020, we have recorded an impairment of 100% of our equity investment of \$2.8 million. See Note 20.
- (3) During fiscal 2019 and 2018, we loaned \$23.8 million and \$9.0 million as notes receivable from FreshRealm. For fiscal 2020 and 2019, we have recorded \$1.7 million and \$2.4 million as interest related to the notes receivable balance from FreshRealm. During fiscal 2020, we have recorded a reserve for collectability of 100% of our note receivable balance of \$34.2 million (which includes accrued interest of \$4.1 million)
- (4) In April 2019, we sold our Temecula, California packinghouse for \$7.1 million in cash and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. This generated a gain of \$6.4 million. Since our leaseback of the building is classified as a capital lease and covers substantially all of the leased property, the gain recognized currently is the amount of the gain in excess of the recorded amount of the leased asset. As a result, we recognized a gain of approximately \$1.9 million in the second quarter of fiscal 2019 and recorded a deferred gain of \$4.5 million, which will be recognized over the life of the lease. In connection with the capital lease we capitalized \$3.2 million as a capital lease in property, plant and equipment and recorded a lease liability of \$3.2 million (\$0.1 million in current portion and \$3.1 million in long term debt).
- (5) During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods products for our RFG business segment. Annual rent for the building and equipment approximates \$0.9 million and \$0.6 million, respectively, over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and capitalized \$2.8 million as a capital lease in property, plant and equipment and recorded \$2.8 million as a lease obligation.
- (6) In January 2016, the FASB issued an ASU, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The Company adopted this new standard at the beginning of fiscal 2019. For the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of \$0.1 million in our consolidated statements of income. Limoneira's stock price at October 31, 2020, 2019, and 2018 equaled \$13.83 per share, \$18.92 per share, and \$24.65 per share. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to \$13.83 per share and \$18.92 per share at October 31, 2020 and 2019, as a result, we recorded a loss of \$8.5 million and \$9.6 million for the year ended October 31, 2020 and 2019 in our consolidated statements of operations.
- (7) The major impacts of applying ASC 842 to the balance sheet at the effective date were 1) the addition of \$65.7 million in operating lease assets and \$69.6 million of operating lease liabilities, 2) the removal of approximately \$3.7 million and \$1.2 million of deferred rent and other long-term obligations, respectively, and 3) a cumulative-effect adjustment for the adoption of ASC 842 of \$0.9 million was recorded to retained earnings, which relates to the gain previously recognized in accordance with ASC 840 on its sale and operating leaseback of the Temecula facility.
- (8) During the third quarter of fiscal 2020, we have recorded an impairment of 100% of our FreshRealm equity investment of \$2.8 million, and we have recorded a reserve for collectability of 100% of our FreshRealm note receivable balance of \$34.2 million (which includes accrued interest of \$4.1 million), and \$0.3 million in trade accounts receivable as of October 31, 2020, which resulted in a loss of \$37.3 million, which is included in the accompanying consolidated statement of operations under "Loss on reserve for FreshRealm note receivable and impairment of investment". In connection with the foregoing, we recorded a \$9.5 million discreet income tax benefit for the third quarter of fiscal 2020. See Note 20.



- (9) On January 21, 2020, we announced that RFG had signed a definitive agreement to acquire SFFI. In February 2020, we completed our acquisition of SFFI. We paid \$18.4 million in cash for 100% of SFFI (net of cash acquired). Founded in 1999 and based in Vernon, Calif., privately held SFFI is a processor and supplier of a broad line of fresh-cut fruit, principally serving the foodservice and hospitality markets. See Note 18.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under "Risks Related to Our Business" included in Item 1A and elsewhere in this Annual Report.*

### Overview

We are a leader in the distribution of avocados, prepared avocado products, and other perishable food products throughout the United States. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesalers on a worldwide basis. We procure avocados from California, Mexico and other growing regions around the world. Through our various operating facilities, we (i) sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas, (ii) create, process and package guacamole and salsa and (iii) create, process and package a portfolio of healthy fresh foods including fresh-cut fruit, fresh-cut vegetables, and prepared foods. We report our operations in three different business segments: Fresh products, Calavo Foods and RFG. See Note 10 to our consolidated financial statements for further discussion.

Our Fresh products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. During fiscal 2020, we operated four packinghouses and four operating and distributing facilities (aka value-added depots or VADs) that handle avocados that are sold across the United States and to select international markets. We believe that our continued success in marketing avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices, and keeping the handling costs low as we ship avocados to our packinghouses and distribution centers. We believe our diversified avocado sources help provide a level of relative supply stability that may, over time, serve to increase the availability and demand for avocados among consumers in the United States and elsewhere in the world. Significant fluctuations in the volume of avocados delivered have an impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. As a result of our investment in packinghouse equipment, distribution centers with value-added ripening and packing capabilities, and personnel, we believe that our cost structure is geared to optimally handle larger avocado volume. We believe our efforts in distributing our other various perishable foods, such as tomatoes and papayas, complement our offerings of avocados. From time to time, we continue to explore the distribution of other crops that provide reasonable returns to our business.

Our Calavo Foods business processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. All of our prepared avocado products shipped to North America are "cold pasteurized" and include both frozen and fresh guacamole. Due to the high-quality, no preservative nature of our guacamole and the variety of packaging formats that we offer, we believe that we are well positioned to address the diverse taste and needs of today's foodservice and retail customers. Additionally, we also prepare various fresh salsa products. Our Calavo Foods segment maintains relationships with foodservice companies and food retailers. We continue to seek to expand our relationships with major foodservice companies and food retailers and develop alliances that will allow our products to reach a larger percentage of the marketplace. Net sales of frozen products represented approximately 37% and 38% of total processed segment sales for the years ended October 31, 2020 and 2019. Net sales of our refrigerated products represented approximately 63% and 62% of total processed segment sales for the years ended October 31, 2020 and 2019.

Our RFG business produces, markets and distributes nationally a portfolio of healthy, high quality fresh packaged food products for consumers sold through the retail and other channels. RFG products include fresh-cut fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products, as well as ready-to-heat entrees and other hot bar and various deli items, meals kit components and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials brands, as well as store-brand and private label programs.

The operating results of all of our businesses have been, and will continue to be, affected by quarterly and annual fluctuations and market downturns due to a number of factors, including but not limited to pests and disease, weather patterns, changes in demand by consumers, food safety advisories impacting the fresh perishable food categories in which we currently operate, the timing of the receipt, reduction, or cancellation of significant customer orders, the gain or loss of significant customers, market acceptance of our products, our ability to develop, introduce, and market new products on a timely basis, the availability, quality and price of raw materials, new product introductions by our competitors, the utilization of production capacity at our various plant locations, change in the mix of products that our Fresh, Calavo Foods and RFG segments sell, and general economic conditions. We believe, however, that we are currently positioned to address these risks and deliver favorable operating results for the foreseeable future.

### **Recent Developments**

#### *COVID-19 Pandemic Impact*

The COVID-19 pandemic has created challenging and unprecedented conditions for our business, and we are committed to taking action in support of a Company-wide response to the crisis. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. We believe we are well positioned for the future as we continue to navigate the crisis and prepare for an eventual return to a more normal operating environment. We have successfully implemented contingency plans overseen by our management teams in the U.S. and in Mexico to monitor the evolving needs of our businesses in those countries, as well as those related to our Peru partner in consignment avocado sales and our Mexican partners in consignment tomato sales.

The COVID-19 pandemic began to have an adverse impact on our results of operations in the month of March, resulting in cancelled orders, altered customer buying patterns, delays in potential new business opportunities, losses on product unable to be sold, reductions in margins related to lower manufacturing throughput, and changes to integration plans for an acquired entity. The effects of the pandemic were more pronounced in the portions of our business servicing foodservice customers and to a lesser extent certain segments of our retail business, including behind-the-glass deli and grab-and-go convenience items. While we have managed the pandemic well, with improving results beginning in April and minimal disruption to our overall business thus far, the continuing impact of the pandemic on our future consolidated results of operations is uncertain.

#### *Organizational changes*

On February 1, 2020, James Gibson became Chief Executive Officer, succeeding Lecil Cole, who retired on January 31, 2020. Mr. Gibson has served as President of Calavo's RFG division since October 26, 2017 and previously served as Chief Operating Officer and a founding member of RFG since 2003.

On February 26, 2020, Lecil Cole retired as Chairman of the Board of Directors, although he remains a director of Calavo. On February 27, 2020, Mr. J. Link Leavens was appointed Chairman of the Board of Directors.

On March 10, 2020, Joel Silva was promoted to Corporate Controller and Chief Accounting Officer, succeeding James Snyder, who resigned on March 6, 2020, to join a company in the financial services sector. Previously Mr. Silva was Division Controller for our Fresh and Foods divisions.

On May 11, 2020, Kevin Manion became Chief Financial Officer, succeeding John Lindeman, who resigned on March 11, 2020. Mr. Manion held financial leadership positions with companies including Century Snacks, Young's Market Company, Bolthouse Farms, Hostess Brands, Nestle USA and Kraft General Foods.

On August 10, 2020, Mark Lodge became Chief Operations Officer. Mr. Lodge has served as Executive Vice President of RFG Business Operations. Prior to joining Calavo, Mr. Lodge held the role of Executive Vice President for Revolution Foods supplying all-natural school meals across the United States. Prior to Revolution Foods, Mr.

Lodge was President of True Fresh HPP and True Food Innovations and was previously instrumental in the identification and implementation of the Fresh & Easy manufacturing business in the United States for Tesco, plc.

On August 10, 2020, Calavo promoted Robert Wedin to the position of Executive Vice President of Fresh Sales. Mr. Wedin has served as our Vice President, Sales and Fresh Marketing since 1993. Mr. Wedin joined Calavo in 1973 at our then Santa Barbara packinghouse. Beginning in 1990, Mr. Wedin served as a director of the California Avocado Commission for a period of ten years. Mr. Wedin currently is a board member of Producesupply.org and serves as a member of that organization's executive committee.

#### *Dividend Payment*

On October 26, 2020, the Company declared a \$1.15 per share cash dividend to shareholders of record on November 13, 2020. On December 4, 2020, the Company paid this cash dividend, which totaled \$20.3 million.

#### *Litigation*

From time to time, we are involved in litigation arising in the ordinary course of our business that we do not believe will have a material adverse impact on our financial statements.

#### *Mexico tax audits*

We conduct business both domestically and internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States. During our third quarter of fiscal 2016, our wholly owned subsidiary, Calavo de Mexico (CDM), received a written communication from the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico (MFM) containing preliminary observations related to a fiscal 2011 tax audit of such subsidiary. MFM's preliminary observations outline certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and Value Added Tax (IVA). During the period from our fourth fiscal quarter of 2016 through our first fiscal quarter of 2019, we attempted to resolve our case with the MFM through working meetings attended by representatives of the MFM, CDM and PRODECON (Local Tax Ombudsman). However, we were unable to materially resolve our case with the MFM through the PRODECON process.

As a result, in April 2019, the MFM issued a final tax assessment to CDM (the "2011 Assessment") totaling approximately \$2.2 billion Mexican pesos (approx. \$103.5 million USD at October 31, 2020) related to Income Tax, Flat Rate Business Tax and Value Added Tax, corresponding to the fiscal year 2011 tax audit. We have consulted with an internationally recognized tax advisor and continue to believe this tax assessment is without merit. Therefore, we filed an administrative appeal challenging the MFM's 2011 assessment on June 12, 2019. The filing of an administrative appeal in Mexico is a process in which the taxpayer appeals to a different office within the Mexican tax authorities, forcing the legal office within the MFM to rule on the matter. This process preserves the taxpayer's right to litigate in tax court if the administrative appeal process ends without a favorable or just resolution. Furthermore, in August 2018, we received a favorable ruling from Mexico's Federal Tax Administration Service, Servicio de Administracion Tributaria's (the "SAT") central legal department in Mexico City on another tax matter (see footnote 15 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2011 Assessment. We believe this recent ruling undermines the Assessment we received in April 2019.

During the month of November 2020 we were in contact with the MFM and presented our arguments that we believe undermine the legality of the 2011 Assessment, asserting among others, the determination by the SAT's central legal department described below, which recognizes the legal validity of our operation as a maquiladora. Based on the foregoing, the MFM has offered to take into account such argument in its resolution of the pending administrative appeal.

We believe we have the legal arguments and documentation to sustain the positions challenged by the MFM.

Additionally, we also received notice from the SAT, that CDM is currently under examination related to fiscal year 2013. In January 2017, we received preliminary observations from SAT outlining certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers, and VAT. We provided a written rebuttal to these preliminary observations during our second fiscal quarter of 2017. During the period from our third fiscal quarter of 2017 through our third fiscal quarter of 2018, we attempted to resolve our case with the SAT through working meetings attended by representatives of the SAT, CDM and the PRODECON. However, we were unable to materially resolve our case with the SAT through the PRODECON process.

As a result, in July 2018, the SAT's local office in Uruapan issued to CDM a final tax assessment (the "2013 Assessment") totaling approximately \$2.6 billion Mexican pesos (approx. \$122.4 million USD at October 31, 2020) related to Income Tax, Flat Rate Business Tax, and Value Added Tax, related to this fiscal 2013 tax audit. Additionally, the tax authorities have determined that we owe an employee's profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$5.6 million USD at October 31, 2020).

We have consulted with both an internationally recognized tax advisor, as well as a global law firm with offices throughout Mexico, and we continue to believe that this tax assessment is without merit. In August 2018, we filed an administrative appeal on the 2013 Assessment. CDM has appealed our case to the SAT's central legal department in Mexico City. Furthermore, and as noted in the preceding paragraphs, in August 2018, we received a favorable ruling from the SAT's central legal department in Mexico City on another tax matter (see footnote 15 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is central to the 2013 Assessment. We believe this recent ruling significantly undermines the 2013 Assessment we received in July 2018.

In light of the foregoing, the Company is currently considering its options for resolution of the two tax assessments:

- In the unlikely event of an unfavorable resolution of the administrative appeal, we could file a nullification suit with the Mexican Tax Court. In order to file such suit, we would be required to post collateral or a bond for the total amount of the tax assessment (including inflation adjustments, penalties and surcharges) while the suit is in process, which could last from two to three years. If the suit results in an unfavorable ruling, there is an option to appeal to the Collegiate Circuit Court while maintaining the collateral or bond in place.
- In the event of filing a nullification suit, the collateral or bonding requirement may be avoided by filing a nullification suit on substantive matters ("Juicio de Fondo"). This type of suit permits only arguments on the legal merits of the taxpayer's case, and limits arguments on procedural matters.

The estimated time for resolution of this matter could be affected by the situation related to the COVID-19 pandemic. We continue to believe that the ultimate resolution of these matters is unlikely to have a material effect on our consolidated financial position.

### **Critical Accounting Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of customer and grower receivables, IVA tax receivables, inventories, useful lives of property, plant and equipment, promotional allowances, equity income/losses and impairment analysis from unconsolidated entities, loans to unconsolidated entities, income taxes, retirement benefits, and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Additionally, we frequently engage third party valuation experts to assist us with estimates described below. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

Management has discussed the development and selection of critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting estimates in this Annual Report.

We believe the following are the more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Promotional allowances.* We provide for promotional allowances at the time of sale, based on our historical experience. Our estimates are generally based on evaluating the relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period's sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued liabilities. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified. We estimate that a one percent (100 basis point) change in the derived percentage for the entire year would impact results of operations by approximately \$0.1 million.

*Income taxes.* We account for deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, we perform an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, the liability will be reversed and we will recognize a tax benefit during the period in which it is determined the liability no longer applies. Conversely, we record additional tax charges in a period in which it is determined that a recorded tax liability is less than the ultimate assessment is expected to be.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

*Goodwill and acquired intangible assets.* Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. We can use a qualitative test, known as "Step 0," or a two-step quantitative method to determine whether impairment has occurred. In Step 0, we elect to perform an optional qualitative analysis and based on the results skip the two step analysis. In fiscal 2020, 2019 and 2018, we elected to implement Step 0 and were not required to conduct the remaining two step analysis. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. The results of our Step 0 assessments indicated that it was more likely than not that the fair value of its reporting unit exceeded its carrying value and therefore we concluded that there were no impairments for the years ended October 31, 2020, 2019 or 2018.

*Investments.* We account for non-marketable investments using the equity method of accounting if the investment gives us the ability to exercise significant influence over, but not control, an investee. Significant influence generally exists when we have an ownership interest representing between 20% and 50% of the voting stock of the investee.

Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and our proportionate share of earnings or losses and distributions. In order to estimate the fair value of our investment in FreshRealm, we hired an independent third-party expert to provide their written opinion on the fair value of our investment. We reviewed and considered their independent expert opinion in making our determination.

*Notes receivable from FreshRealm.* As of October 31, 2019, we have note receivables from FreshRealm totaling \$35.2 million. During the third quarter of fiscal 2020, the results of operations of FreshRealm have deteriorated significantly from our expectations three months earlier, with declining sales and continuing losses. FreshRealm will likely require additional capital in order to continue as a going concern. We do not plan to invest or loan any additional capital to FreshRealm. We have performed a valuation analysis of the financial condition and projected operations of FreshRealm under various methods, including liquidation, exit multiple, and perpetual growth approaches, appropriately weighted for the circumstances. In accordance with the foregoing, we have recorded a reserve for collectability of 100% of our note receivable balance of \$34.2 million (which includes accrued interest of \$4.1 million), and \$0.3 million in trade accounts receivable as of October 31, 2020, which resulted in a loss of \$37.3 million, which is included in the accompanying consolidated statement of operations under “Loss on reserve for FreshRealm note receivable and impairment of investment”.

## Results of Operations

The following table sets forth certain items from our consolidated statements of operations, expressed as percentages of our total net sales, for the periods indicated:

	Year ended October 31,		
	2020	2019	2018
Net sales	100.0 %	100.0 %	100.0 %
Gross profit	8.5 %	10.7 %	10.4 %
Selling, general and administrative	5.5 %	4.9 %	5.2 %
Operating income	3.0 %	5.9 %	5.2 %
Interest income	0.2 %	0.2 %	0.0 %
Interest expense	(0.1)%	(0.1)%	(0.1)%
Other income, net	0.1 %	0.0 %	0.1 %
Unrealized and realized net loss on Limoneira shares	(0.8)%	(0.8)%	0.0 %
Net income	(1.3)%	3.1 %	3.0 %

## Non-GAAP Financial Measures

The below tables include non-GAAP measures EBITDA, adjusted EBITDA, adjusted net income and adjusted diluted EPS, which are not prepared in accordance with U.S. generally accepted accounting principles, or “GAAP.”

EBITDA is defined as net income (loss) attributable to Calavo Growers, Inc. excluding (1) interest income and expense, (2) income taxes (benefit) provision, (3) depreciation and amortization and (4) stock-based compensation expense. Adjusted EBITDA is EBITDA with further adjustments for (1) non-cash net losses recognized from unconsolidated entities, (2) goodwill impairment, (3) write-off of long-lived assets, (4) acquisition-related costs, (5) restructuring and certain severance costs, (6) certain litigation and other related costs, and (7) one-time items. Adjusted EBITDA is a primary metric by which management evaluates the operating performance of the business, on which certain operating expenditures and internal budgets are based and by which, in addition to other factors, the Company’s senior management is compensated. The adjustments to calculate EBITDA and adjusted EBITDA are items recognized and recorded under GAAP in particular periods but might be viewed as not necessarily coinciding with the underlying business operations for the periods in which they are so recognized and recorded.

Adjusted net income is defined as net income (loss) attributable to Calavo Growers, Inc. excluding (1) non-cash net losses recognized from unconsolidated entities, (2) goodwill impairment, (3) write-off of long-lived assets, (4) acquisition-related costs, (5) restructuring and certain severance costs, (6) certain litigation and other related costs, and (7) one-time items. Adjusted net income and the related measure of adjusted diluted EPS exclude certain items that are recognized and recorded under GAAP in particular periods but might be viewed as not necessarily coinciding with the underlying business operations for the periods in which they are so recognized and recorded. We believe adjusted net income affords investors a different view of the overall financial performance of the Company than adjusted EBITDA and the GAAP measure of net income (loss) attributable to Calavo Growers, Inc.

Reconciliations of non-GAAP financial measures to the most directly comparable GAAP financial measures are provided in the financial tables below.

Items are considered one-time in nature if they are non-recurring, infrequent or unusual and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. One-time items are identified in the notes to the reconciliations in the financial tables below.

Non-GAAP information should be considered as supplemental in nature and not as a substitute for, or superior to, any measure of performance prepared in accordance with GAAP. None of these metrics are presented as measures of liquidity. The way the Company measures EBITDA, adjusted EBITDA, adjusted net income and adjusted diluted EPS may not be comparable to similarly titled measures presented by other companies and may not be identical to corresponding measures used in Company agreements.



## Adjusted Net Income (Non-GAAP, Unaudited)

The following table presents adjusted net income and adjusted diluted EPS, each a non-GAAP measure, and reconciles them to net income (loss) attributable to Calavo Growers, Inc., and Diluted EPS, which are the most directly comparable GAAP measures. See “Non-GAAP Financial Measures” above (in thousands, except per share amounts).

	Year ended October 31,		
	2020	2019	2018
Net income (loss) attributable to Calavo Growers, Inc.	\$ (13,625)	\$ 36,646	\$ 32,281
Non-GAAP adjustments:			
Non-cash losses recognized from unconsolidated entities (a)	6,110	14,082	11,850
Gain on sale-Temecula packinghouse, net of sales commission (b)	—	(1,572)	—
One-time, non-cash tax charges from Tax Cut & Jobs Act (c)	—	—	1,702
Loss on reserve for FreshRealm note receivable and impairment of investment (d)	37,322	—	—
Management transition expenses (e)	1,119	—	891
Acquisition costs – SFFI, Inc (f)	510	—	—
Net loss on Limoneira shares (g)	8,537	9,722	—
RFG rent expense add back (h)	108	—	—
Professional expenses related to FreshRealm(i)	255	—	—
Tax impact of adjustments (j)	(12,773)	(5,803)	(3,138)
Adjusted net income attributed to Calavo Growers, Inc.	<u>\$ 27,563</u>	<u>\$ 53,075</u>	<u>\$ 43,586</u>
Calavo Growers, Inc.’s net income (loss) per share:			
Diluted EPS (GAAP)	<u>\$ (0.78)</u>	<u>\$ 2.08</u>	<u>\$ 1.84</u>
Adjusted Diluted EPS	<u>\$ 1.57</u>	<u>\$ 3.02</u>	<u>\$ 2.48</u>
Number of shares used in per share computation:			
Diluted	<u>17,564</u>	<u>17,593</u>	<u>17,568</u>

- (a) For the year ended October 31, 2020, 2019 and 2018, FreshRealm incurred losses totaling \$24.1 million, \$30.6 million and \$29.4 million, of which we recorded \$7.2 million, \$14.1 million and \$12.0 million of non-cash losses during fiscal 2020, 2019 and 2018. For the year ended October 31, 2020, 2019 and 2018, we incurred income from Agricola Don Memo totaling \$1.1 million, \$0.1 million, and \$0.1 million.
- (b) During the second quarter of fiscal 2019, we sold our Temecula, Calif., packinghouse for \$7.1 million in cash (\$6.7 million, net of transaction costs totaling \$0.4 million) and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. As a result, we recognized a gain of approximately \$1.9 million (\$1.6 million net of sales commissions) in our second quarter of fiscal 2019.
- (c) First quarter of fiscal 2018 results include the company’s estimate for the effects of the Tax Cuts and Jobs Act. Calavo recorded a one-time, non-cash charge due to the revaluation of our net deferred tax assets and the transition tax on the deemed repatriation of foreign earnings.
- (d) During the third quarter of fiscal 2020, the results of operations of FreshRealm have deteriorated significantly from our expectations three months earlier, with declining sales and continuing losses. FreshRealm will likely require additional capital in order to continue as a going concern. We do not plan to invest or loan any additional capital to FreshRealm. Therefore, we have recorded an impairment of 100% of our equity investment of \$2.8 million, and we have recorded a reserve for 100% of our note receivable of 34.2 million (which includes accrued interest of \$4.1 million), and \$0.3 million in trade accounts receivable as of October 31, 2020, which resulted in a loss of \$37.3 million.
- (e) For fiscal 2020 and 2018, results include higher stock-based compensation expense related to senior management transitions, which does not impact the underlying cost structure of the company.
- (f) In fiscal 2020, we incurred expenses related to the acquisition of SFFI Company, Inc. doing business as Simply Fresh (SFFI). SFFI is a processor and supplier of a broad line of fresh-cut fruit, principally serving the foodservice and hospitality markets.
- (g) In the first quarter of fiscal 2019, we adopted a new accounting standard update which requires us to record changes in fair value of equity investments, including our investment in Limoneira (LMNR) common stock, in net income during the period. For the

year ended October 31, 2020 and 2019, we recorded \$8.5 million and \$9.6 million in unrealized losses related to these mark-to-market adjustments. Additionally, we sold 51,271 shares of Limoneira stock during fiscal 2019 and recorded a loss of \$0.1 million.

- (h) For the three months and year ended October 31, 2020, we incurred \$0.1 million related to rent paid for RFG corporate office space that we have vacated and plan to sublease.
- (i) For the year ended October 31, 2020, we incurred \$0.3 million of professional fees related to FreshRealm and to the Loss on reserve for FreshRealm note receivable and impairment of investment.
- (j) Tax impact of non-GAAP adjustments are based on the prevailing year-to-date tax rates in each period and adjusted to the one-time tax charges mentioned in note (c).

#### Reconciliation of EBITDA and Adjusted EBITDA (Non-GAAP, Unaudited)

The following table presents EBITDA and adjusted EBITDA, each a non-GAAP measure, and reconciles them to net income (loss) attributable to Calavo Growers, Inc., which is the most directly comparable GAAP measure. See “Non-GAAP Financial Measures” above (in thousands, except per share amounts).

	Year ended October 31,		
	2020	2019	2018
Net income (loss) attributable to Calavo Growers, Inc.	\$ (13,625)	\$ 36,646	\$ 32,281
Interest Income	(1,998)	(2,675)	(318)
Interest Expense	877	948	831
Provision (benefit) for Income Taxes	(4,292)	12,881	12,719
Depreciation & Amortization	16,093	13,633	13,042
Stock-Based Compensation (e)	4,487	3,593	4,633
<b>EBITDA</b>	<b>\$ 1,542</b>	<b>\$ 65,026</b>	<b>\$ 63,188</b>
<b>Adjustments:</b>			
Non-cash losses recognized from unconsolidated entities (a)	6,110	14,082	11,850
Net loss on Limoneira shares (g)	8,537	9,722	—
Loss on reserve for FreshRealm note receivable and impairment of investment (d)	37,322	—	—
Gain on sale-Temecula packinghouse, net of sales commission (b)	—	(1,572)	—
Professional expenses related to FreshRealm (i)	255	—	—
RFG rent expense add back (h)	108	—	—
Acquisition costs - SFFI, Inc. (f)	510	—	—
<b>Adjusted EBITDA</b>	<b>\$ 54,384</b>	<b>\$ 87,258</b>	<b>\$ 75,038</b>
<b>Adjusted EBITDA per share</b>	<b>\$ 3.10</b>	<b>\$ 4.96</b>	<b>\$ 4.27</b>

See prior page for footnote references

We believe that the fundamental consumption trends for our products continue to be favorable. Firstly, U.S. avocado demand continues to grow, with per capita consumption in 2019/20 reaching 7.8 pounds per person, and approximately double the estimate from a decade ago. We believe that the healthy eating trend that has been developing in the U.S. contributes to such growth, as avocados are cholesterol and sodium free, dense in fiber, vitamin B6, antioxidants, potassium, folate, and contain unsaturated fat, which helps lower cholesterol. Also, a growing number of research studies seem to suggest that phytonutrients, which avocados are rich in, help fight chronic illnesses, such as heart disease and cancer.

Additionally, we believe that the demographic changes in the U.S. will impact the consumption of avocados and avocado-based products. The Hispanic community currently accounts for approximately 18% of the U.S. population and the total number of Hispanics is estimated to double by the year 2050. Avocados are considered a staple item purchased by Hispanic consumers, as the per-capita avocado consumption in Mexico is significantly higher than that of the U.S.

We anticipate avocado products will further penetrate the United States marketplace, driven by year-round availability of imported fresh avocados, a rapidly growing Hispanic population, and the promotion of the health benefits of avocados. As one of the largest marketers of avocado products in the United States, we believe that we are well positioned to leverage this trend and to grow our Fresh products and Calavo Foods segments of our business. Additionally, we also believe that avocados and avocado based products will further penetrate other marketplaces that we currently operate in as interest in avocados continues to expand.

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long term, positively impact average selling prices and will favorably impact our avocado businesses. During fiscal 2020, 2019 and 2018, on behalf of avocado growers, we remitted approximately \$1.3 million, \$1.1 million and \$1.5 million to the California Avocado Commission. During fiscal 2020, 2019 and 2018, we remitted approximately \$8.4 million, \$7.2 million and \$6.9 million to the Hass Avocado Board related to avocados. Similarly, Avocados from Mexico (AFM) was formed in 2013 as the marketing arm of the Mexican Hass Avocados Importers Association (MHAIA) and the Association of Growers and Packers of Avocados From Mexico (APEAM). During fiscal 2020, 2019 and 2018, we remitted approximately \$5.2 million, \$5.4 million and \$4.7 million to APEAM primarily related to these marketing activities for Mexican avocados.

We also believe that our other fresh products, primarily tomatoes, are positioned for future growth. The tomato is the fourth most popular fresh-market vegetable (though a fruit scientifically speaking, tomatoes are more commonly considered a vegetable) behind potatoes, lettuce, and onions in the U.S. Although stabilizing in the first decade of the 2000s, annual average fresh-market tomato consumption remains well above that of the previous decade. Over the past few decades, per capita consumption of tomatoes has been on the rise due primarily to the enduring popularity of salads, salad bars, and submarine sandwiches. Perhaps of greater importance has been the introduction of new and improved tomato varieties, the increased development of hot-house grown tomatoes (such as those grown by our ADM affiliate), heightened consumer interest in a wider range of tomatoes, a surge of new immigrants who eat vegetable-intensive diets, and expanding national emphasis on health and nutrition.

Papayas have become more popular as the consumption in the U.S. has more than doubled in the past decade. Papayas have high nutritional benefits. They are rich in anti-oxidants, the B vitamins, folate and pantothenic acid, potassium and magnesium, and fiber.

Additionally, through the acquisition of RFG, we substantially expanded and accelerated the Company's presence in the fast-growing refrigerated fresh packaged foods category through an array of retail product lines for produce, deli, and foodservice departments. RFG products include fresh-cut fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products as well as ready-to-heat entrees and other hot bar and various deli items, meals

kits and salad kits. Value-added fruits and vegetables have continued to grow faster than their broader produce categories as consumers increasingly place value on the convenient nature of those products and producers like RFG continue to develop new formulations of value-added products. RFG has also expanded the capacity to provide products for a larger portion of the Fresh Deli department, which remains one of the fastest growing aisles in retail grocery.

The following tables set forth sales by product category and sales incentives, by segment (dollars in thousands):

	Year ended October 31, 2020				Year ended October 31, 2019			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	\$ 521,542	\$ —	\$ —	\$ 521,542	\$ 569,779	\$ —	\$ —	\$ 569,779
Tomatoes	53,922	—	—	53,922	40,879	—	—	40,879
Papayas	10,529	—	—	10,529	10,931	—	—	10,931
Other fresh income	327	—	—	327	1,353	—	—	1,353
Prepared avocado products	—	79,382	—	79,382	—	100,842	—	100,842
Salsa	—	2,783	—	2,783	—	3,252	—	3,252
Fresh-cut fruit & vegetables and prepared foods	—	—	406,572	406,572	—	—	488,373	488,373
Total gross sales	586,320	82,165	406,572	1,075,057	622,942	104,094	488,373	1,215,409
Less sales incentives	(1,268)	(6,945)	(1,849)	(10,062)	(1,759)	(9,360)	(2,310)	(13,429)
Less inter-company eliminations	(1,651)	(3,973)	—	(5,624)	(2,246)	(3,957)	—	(6,203)
Net sales	<u>\$ 583,401</u>	<u>\$ 71,247</u>	<u>\$ 404,723</u>	<u>\$ 1,059,371</u>	<u>\$ 618,937</u>	<u>\$ 90,777</u>	<u>\$ 486,063</u>	<u>\$ 1,195,777</u>

	Year ended October 31, 2019				Year ended October 31, 2018			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	\$ 569,779	\$ —	\$ —	\$ 569,779	\$ 511,730	\$ —	\$ —	\$ 511,730
Tomatoes	40,879	—	—	40,879	31,608	—	—	31,608
Papayas	10,931	—	—	10,931	11,699	—	—	11,699
Other fresh income	1,353	—	—	1,353	498	—	—	498
Prepared avocado products	—	100,842	—	100,842	—	99,635	—	99,635
Salsa	—	3,252	—	3,252	—	3,423	—	3,423
Fresh-cut fruit & vegetables and prepared foods	—	—	488,373	488,373	—	—	451,203	451,203
Total gross sales	622,942	104,094	488,373	1,215,409	555,535	103,058	451,203	1,109,796
Less sales incentives	(1,759)	(9,360)	(2,310)	(13,429)	(2,327)	(11,412)	(2,273)	(16,012)
Less inter-company eliminations	(2,246)	(3,957)	—	(6,203)	(1,554)	(3,472)	—	(5,026)
Net sales	<u>\$ 618,937</u>	<u>\$ 90,777</u>	<u>\$ 486,063</u>	<u>\$ 1,195,777</u>	<u>\$ 551,654</u>	<u>\$ 88,174</u>	<u>\$ 448,930</u>	<u>\$ 1,088,758</u>

Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal year 2020, 2019 and 2018, inter-segment sales and cost of sales of \$1.7 million, \$2.2 million and \$1.6 million between Fresh products and RFG were eliminated. For fiscal year 2020, 2019 and 2018, inter-segment sales and cost of sales of \$4.0 million, \$4.0 million and \$3.5 million between Calavo Foods and RFG were eliminated.

The following table summarizes our net sales by business segment:

	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>
<b>(Dollars in thousands)</b>					
<b>Gross sales:</b>					
Fresh products	\$ 585,052	(6)%	\$ 621,183	12 %	\$ 553,208
Calavo Foods	75,220	(21)%	94,734	3 %	91,646
RFG	404,723	(17)%	486,063	8 %	448,930
Less intercompany eliminations	<u>(5,624)</u>	<u>(9)%</u>	<u>(6,203)</u>	<u>23 %</u>	<u>(5,026)</u>
Total net sales	<u>\$ 1,059,371</u>	<u>(11)%</u>	<u>\$ 1,195,777</u>	<u>10 %</u>	<u>\$ 1,088,758</u>
<b>As a percentage of sales:</b>					
Fresh products	54.9 %		51.7 %		50.6 %
Calavo Foods	7.1 %		7.9 %		8.4 %
RFG	<u>38.0 %</u>		<u>40.4 %</u>		<u>41.0 %</u>
	<u>100 %</u>		<u>100 %</u>		<u>100 %</u>

### Summary

Net sales for the year ended October 31, 2020, as compared to 2019, decreased by \$136.4 million, or 11.4%. The decrease in sales for the year ended October 31, 2020, when compared to the same corresponding prior year period, was due to declines across all segments.

For the year ended October 31, 2020, the decrease in RFG sales was due primarily to decreased sales from fresh-cut fruit & vegetables and prepared foods products. The decrease in Calavo Foods was due primarily to a decrease in the sales of prepared avocado products. See discussion below for further details. The decrease in Fresh products sales was due primarily to a decrease in sales of avocados.

All three segments of our business are subject to seasonal trends, which can impact the volume and/or quality of fruit sourced in any particular quarter.

Net sales to third parties by segment exclude value-added services billed by our Uruapan packinghouse and our Uruapan processing plant to the parent company. Additionally, net sales to third parties by segment exclude sales between Avocados de Jalisco and the parent company. All intercompany sales are eliminated in our consolidated results of operations.

### Fresh products

Fiscal 2020 vs. Fiscal 2019:

Net sales delivered by the Fresh products business decreased by approximately \$36.1 million, or 6%, for the year ended October 31, 2020, when compared to the same period for fiscal 2019. This decrease in Fresh product sales during fiscal 2020, was primarily related to decreased sales prices due to higher supply of avocados, partially offset by an increase in sales of tomatoes.

Sales of avocados decreased \$47.3 million, or 8%, for the year ended October 31, 2020, when compared to the same prior year period. The average avocado sales price per carton decreased 14% compared to the same prior year period. Partially offsetting this decrease, the volume of avocados sold during the year ended October 31, 2020 increased 7% compared to the prior year period.

Sales of tomatoes increased \$13.0 million, or 32%, for the year ended October 31, 2020, when compared to the same prior year period. This increase in tomato sales was primarily due to a 30% increase in the average sales price per carton compared to the same prior year period.

We anticipate that our sales volume of avocados will increase in fiscal 2021, due to a larger expected avocado crop from all sources, when compared to the same prior year period.

Fiscal 2019 vs. Fiscal 2018:

Net sales delivered by the Fresh products business increased by approximately \$67.2 million, or 12%, for the year ended October 31, 2019, when compared to the same period for fiscal 2018. This increase in Fresh product sales during the year ended 2019 was primarily related to increased sales of avocados and tomatoes.

Sales of avocados increased \$57.8 million, or 11%, for the year ended October 31, 2019, when compared to the same prior year period. The increase in avocado sales was primarily due to a 12% increase in the average sales price per carton, compared to fiscal 2018. We attribute much of the increase in price to the strong consumer demand throughout the year, which exceeded available industry supply, as well as an increase in our percentage of value-added cartons sold. The increase in sales price per carton was partially offset by an approximately 1%, or 2.3 million pound decrease in the volume of avocados sold.

Sales of tomatoes increased to \$39.9 million for the year ended October 31, 2019, compared to \$30.5 million for the same period for fiscal 2018. The increase in sales for tomatoes is primarily due to a 33% increase in volume of tomatoes sold during the year.

#### *Calavo Foods*

Fiscal 2020 vs. Fiscal 2019:

Sales for Calavo Foods for the year ended October 31, 2020, when compared to the same period for fiscal 2019, decreased \$19.5 million, or 21%. Sales of prepared avocado products decreased by approximately \$19.0 million, or 21%, primarily related to a decrease in the total volume of pounds sold. Sales of prepared avocado products were impacted primarily by a decline in demand from foodservice customers related to COVID-19.

Fiscal 2019 vs. Fiscal 2018:

Sales for Calavo Foods for the year ended October 31, 2019, when compared to the same period for fiscal 2018, increased \$2.6 million, or 3%. Sales of prepared avocado products increased by approximately \$2.9 million, or 3%, primarily related to an increase in the average selling price per pound, partially offset by a slight decrease in the volume of products sold. Partially offsetting this gain were sales of salsa products, which decreased by approximately \$0.3 million during the year.

#### *RFG*

Fiscal 2020 vs. Fiscal 2019:

Sales for RFG for the year ended October 31, 2020, when compared to the same period for fiscal 2019, decreased \$81.3 million, or 17%. The decrease was primarily due to lower sales out of the Midwest region of the United States, relating to the closure of RFG's co-packing partner in that region. This was partially offset by additional sales in regions where RFG has added manufacturing capacity, most notably the Georgia facility which opened in April 2019.

Fiscal 2019 vs. Fiscal 2018:

Sales for RFG for the year ended October 31, 2019, when compared to the same period for fiscal 2018, increased \$37.1 million, or 8%. The overall increase in sales is primarily due to higher sales from expanded retail partnerships in multiple geographies, most notably around RFG's new fresh food plant in Georgia (opened in April 2019). Partially offsetting these gains were lower sales in one specific geographic region related to issues that an RFG co-packer experienced during our second quarter.

## Gross Profit

The following table summarizes our gross profit and gross profit percentages by business segment:

	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>
(Dollars in thousands)					
<b>Gross Profit:</b>					
Fresh products	\$ 47,563	(45)%	\$ 86,583	60 %	\$ 54,246
Calavo Foods	20,943	(0)%	20,999	(23)%	27,425
RFG	21,392	4 %	20,500	(36)%	31,945
Total gross profit	<u>\$ 89,898</u>	<u>(30)%</u>	<u>\$ 128,082</u>	<u>13 %</u>	<u>\$ 113,616</u>
<b>Gross profit percentages:</b>					
Fresh products	8.1 %		14.0 %		9.8 %
Calavo Foods	27.8 %		22.2 %		29.8 %
RFG	5.3 %		4.4 %		7.4 %
Consolidated	8.5 %		10.7 %		10.4 %

### Summary

Our cost of goods sold consists predominantly of ingredient costs (primarily fruit and other whole foods), packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products, and other direct expenses pertaining to products sold. Gross profit decreased by approximately \$38.2 million, or 30%, for the year ended October 31, 2020, when compared to the same period for fiscal 2019. The decrease was primarily attributable to gross profit decreases across the Fresh products segment.

### Fresh products

Fiscal 2020 vs. Fiscal 2019:

During our year ended October 31, 2020, as compared to the same prior year period, the decrease in our Fresh products segment gross profit percentage was the result of decreased profit for avocados. For the year ended October 31, 2020, the gross profit percentage for avocados decreased to 8.1% from 14.3% in fiscal year 2019. This decrease was related to the COVID-19 related impacts noted above, the poor fruit quality issues during our first quarter and related to our strong performance during historically favorable market conditions in last year's second and third quarter.

In addition, remeasurement losses related to the Mexican peso for our Mexican subsidiaries during the period totaled \$1.0 million compared to a loss of \$0.4 million during the year ago period.

Note that significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross profit for our Fresh products segment.

For the year ended October 31, 2020 we generated gross profit of \$5.1 million from tomato sales, up from \$4.3 million in the corresponding prior year period. The increase in tomato gross profit was due primarily to the year-over-year increase in sales described in more detail earlier. The majority of our tomato sales are done on a consignment basis, in which the gross profit we earn is generally based on a commission agreed to with each party, which usually is a percent of the overall selling price; however, we also purchase some tomatoes on the spot market to meet specific customer requests and have certain fixed overhead costs associated with our tomato operations which impact the overall gross profit realized from tomato sales. The gross profit percentage for consignment sales are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party growers/packers.

#### Fiscal 2019 vs. Fiscal 2018:

During our year ended October 31, 2019, as compared to the same prior year period, the increase in our Fresh products segment gross profit percentage was the result of increased profit for avocados. For the year ended October 31, 2019, the gross profit percentage for avocados increased to 14.3% from 9.7% in fiscal year 2018. The increase during fiscal 2019 was related to improved efficiency in several key areas across our production and distribution footprint, which helped to complement the favorable market supply conditions experienced in which consumer demand exceeded market supply. Note that significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross profit for our Fresh products segment.

For the year ended October 31, 2019 we generated gross profit of \$4.3 million from tomato sales, up from \$3.2 million in the corresponding prior year period. The increase in tomato gross profit was due primarily to the year-over-year increase in sales described in more detail earlier.

#### *Calavo Foods*

##### Fiscal 2020 vs. Fiscal 2019:

Calavo Foods gross profit percentage increased to 27.8% of net sales, during the year ended October 31, 2020 compared to 22.2% during the same prior year period. The increase in Calavo Foods gross profit percentage was due primarily to a decrease in fruit input costs, in addition to lower manufacturing costs relating to both the facility process improvements completed last year and the weaker Mexican Peso. Note that any significant fluctuation in the cost of fruit used in the production process or the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross profit for our Calavo Foods segment.

##### Fiscal 2019 vs. Fiscal 2018:

Calavo Foods gross profit percentage decreased to 22.2% of net sales, during the year ended October 31, 2019 compared to 29.8% during the same prior year period. The decrease in Calavo Foods gross profit percentage was due primarily to decreased gross profit of our prepared avocado products. The decrease in gross profit and margin for our prepared avocado products was due primarily to higher raw material input costs during the year. Calavo Foods gross profit percentage improved to 20.8% sequentially of net sales in the fourth quarter of fiscal 2019 compared to 11.4% of net sales in the third quarter of fiscal 2019. This improvement is primarily due to a decrease in raw material input costs.

#### *RFG*

##### Fiscal 2020 vs. Fiscal 2019:

RFG's gross profit percentage for the year ended October 31, 2020 was 5.3%, compared to 4.4% in the same prior year period. Gross profit and gross profit percentage generated by RFG's pre-existing manufacturing operations (facilities opened more than one year) both increased compared to the same prior year period driven by better raw material costs and utilization and improved labor efficiency. New production facilities improved on both a year-over-year and sequential period basis.

##### Fiscal 2019 vs. Fiscal 2018:

RFG's gross profit percentage for the year ended October 31, 2019 was 4.4%, compared to 7.4% in the same prior year period. The raw material issues described in detail during our first fiscal quarter continued into a portion of our second fiscal quarter. In general, raw material conditions improved during our third and fourth fiscal quarters, and profitability in our second half far exceeded results from the first half of our fiscal year, especially within RFG's pre-existing manufacturing operations (facilities opened more than one year). Additionally, sales and gross profit in one specific geographic region were significantly impacted as a result of issues experienced at RFG's co-packer servicing that region.



## Selling, General and Administrative

	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>
			(Dollars in thousands)		
Selling, general and administrative	\$ 57,952	(2)%	\$ 59,113	4 %	\$ 57,081
Percentage of net sales	5.5 %		4.9 %		5.2 %

Selling, general and administrative expenses of \$58.0 million for the year ended October 31, 2020 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses decreased by \$1.2 million, or 2.0%, for the year ended October 31, 2020, when compared to the same period for fiscal 2019. This was primarily related to a decrease in the accrual for performance-based senior management bonuses (\$3.5 million), a decrease in broker commission (\$0.8 million) and a decrease in marketing expenses (\$0.5 million). Partially offsetting these decreases is an increase in professional service fees (\$1.4 million), an increase in certain management transition expenses incurred (\$0.9 million), an increase in insurance (\$0.6 million) and an increase in IT expenses (\$0.4 million).

Selling, general and administrative expenses of \$59.1 million for the year ended October 31, 2019 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses increased by \$2.0 million, or 3.6%, for the year ended October 31, 2019, when compared to the same period for fiscal 2018. This increase was primarily related to an increase in accrued management bonuses (approximately \$1.5 million), increase in salaries and benefits (approximately \$0.8 million due primarily to higher headcount), and transaction costs, including sales commission, related to the sale of the Temecula packinghouse (approximately \$0.4 million), partially offset by a decrease of \$1.0 million due to senior management transition expenses recognized in the first quarter of fiscal 2018 related to the stock grant issued to two officers who retired.

### Loss from Unconsolidated Entities

	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>
			(Dollars in thousands)		
Loss from unconsolidated entities	\$ (6,110)	(57)%	\$ (14,082)	19 %	\$ (11,850)

Loss from unconsolidated entities includes our allocation of earnings or losses from our investments in FreshRealm and Don Memo. For the year ended October 31, 2020 and 2019, we recognized \$1.1 million and \$0.1 million of income related to Don Memo. For the year ended October 31, 2020 and 2019, we recognized \$7.2 million and \$14.1 million of losses related to FreshRealm. See Note 16 and Note 20 for additional information regarding FreshRealm.

### Interest Income

	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>
			(Dollars in thousands)		
Interest income	\$ 1,998	(25)%	\$ 2,675	741 %	\$ 318
Percentage of net sales	0.2 %		0.2 %		—%

The decrease in interest income in fiscal 2020 as compared to 2019 is primarily due to the reserve on the loans to FreshRealm in the third quarter of fiscal 2020. The increase in interest income in fiscal 2019 as compared to 2018 is primarily due to the loans to FreshRealm in fiscal 2018. We have discontinued accruing interest effective August 1, 2020 for FreshRealm. See Note 8 and 16.

### Interest Expense

	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>
			(Dollars in thousands)		
Interest expense	\$ 877	(7)%	\$ 948	14 %	\$ 831
Percentage of net sales	0.1 %		0.1 %		0.1 %

Interest expense is primarily generated from our line of credit borrowings with Farm Credit West, PCA (FCW) and Bank of America, N.A. (Bank of America). For fiscal 2020, as compared to fiscal 2019, the decrease in interest expense was primarily related to lower LIBOR interest rates, offset by a higher average debt balance. For fiscal 2019, as compared to fiscal 2018, the increase in interest expense was primarily related to higher LIBOR interest rates, offset by lower average debt balance.

**Other Income, Net**

	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>
	(Dollars in thousands)				
Other income, net	\$ 553	11 %	\$ 499	(11)%	\$ 559
Percentage of net sales	0.1 %		0.0 %		0.1 %

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. During fiscal 2020, 2019 and 2018, we received \$0.5 million, \$0.5 million and \$0.4 million as dividend income from Limoneira.

**Income Taxes Benefit (Provision)**

	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>
	(Dollars in thousands)				
Income tax benefit (provision)	\$ 4,292	(133)%	\$ (12,882)	1 %	\$ (12,719)
Effective tax rate	23.7 %		26.0 %		28.4 %

Our tax provision is determined using an estimated annual effective tax rate and adjusted for discrete taxable events that may occur during the quarter. We recognize the effects of tax legislation in the period in which the law is enacted. Our deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years we estimate the related temporary differences to reverse.

We recorded approximately \$0.4 million and \$0.2 million of tax expense related to return to provision differences upon the filing of the 2019 and 2018 tax returns during our third quarter of fiscal quarters of 2020 and 2019.

**CARES Act**

On March 27, 2020, the President of the United States signed and enacted into law the Coronavirus Aid, Relief and Economic Security (CARES) Act. The CARES Act is a relief package intended to assist many aspects of the country’s economy of which certain components of the Act impacted the Company’s 2020 income tax provision. We recorded approximately \$1.1 million of tax benefit as a result of the provision allowing taxpayers to carry back net operating losses to offset taxable income to previously filed tax returns. In addition, the CARES Act also provides for deferred payment of the employer portion of social security taxes through the end of 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. This provided us with approximately \$1.6 million of additional liquidity during the year.

**Net loss attributable to noncontrolling interest**

	<u>2020</u>	<u>Change</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>
	(Dollars in thousands)				
Net loss attributable to noncontrolling interest	\$ 216	260 %	\$ 60	(78)%	\$ 269
Percentage of net sales	0.0 %		0.0 %		0.0 %

For fiscal years 2020, 2019 and 2018, the net losses attributable to noncontrolling interest is due to losses from Avocados de Jalisco.

## Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2020. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with our audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results.

	Three months ended							
	Oct. 31, 2020	July 31, 2020	Apr. 30, 2020	Jan. 31, 2020	Oct. 31, 2019	July 31, 2019	Apr. 30, 2019	Jan. 31, 2019
(in thousands, except per share amounts)								
<b>Statement of Operations Data</b>								
Net sales	\$ 234,430	\$ 270,425	\$ 281,166	\$ 273,348	\$ 292,176	\$ 359,333	\$ 286,236	\$ 258,032
Cost of sales	213,250	239,590	259,091	257,540	267,543	323,558	249,399	227,195
Gross profit	21,180	30,835	22,075	15,808	24,633	35,775	36,837	30,837
Gain on sale of Temecula packinghouse	54	54	54	54	75	75	1,927	—
Selling, general and administrative	13,726	13,424	14,504	16,298	14,885	14,295	15,657	14,276
Operating income (loss)	7,508	17,465	7,625	(436)	9,823	21,555	23,107	16,561
Gains (losses) on Limoneira shares	588	218	(10,349)	1,006	(1,460)	(5,116)	1,359	(4,505)
Other income (expense), net	156	425	286	807	741	708	521	256
Reserve of FreshRealm note and investment	(130)	(37,192)	—	—	—	—	—	—
Income before provision for income taxes and income (loss) from unconsol. entities	8,122	(19,084)	(2,438)	1,377	9,104	17,147	24,987	12,312
Provision (benefit) for income taxes	2,248	(4,682)	(1,208)	(650)	1,789	3,987	5,573	1,533
Income (loss) from unconsolidated entities	265	(1,170)	(2,177)	(3,028)	(2,138)	(2,510)	(3,136)	(6,298)
Net income (loss)	6,139	(15,572)	(3,407)	(1,001)	5,177	10,650	16,278	4,481
Add: Net (income) loss-noncontrolling int.	88	(64)	129	63	34	(47)	67	6
Net income (loss) -Calavo Growers, Inc	\$ 6,227	\$ (15,636)	\$ (3,278)	\$ (938)	\$ 5,211	\$ 10,603	\$ 16,345	\$ 4,487
Basic	\$ 0.35	\$ (0.89)	\$ (0.19)	\$ (0.05)	\$ 0.30	\$ 0.61	\$ 0.93	\$ 0.26
Diluted	\$ 0.35	\$ (0.89)	\$ (0.19)	\$ (0.05)	\$ 0.30	\$ 0.60	\$ 0.93	\$ 0.26
Number of shares used in per share computation:								
Basic	17,586	17,586	17,550	17,536	17,525	17,525	17,530	17,500
Diluted	17,666	17,586	17,550	17,536	17,604	17,605	17,609	17,558
Other information								
pounds of avocados sold	87,868	105,968	92,990	95,632	85,648	89,638	96,660	82,816
pounds of processed products sold	6,064	6,425	6,040	6,951	7,513	8,372	7,558	7,903

## Liquidity and Capital Resources

Operating activities for fiscal 2020, 2019 and 2018 provided cash flows of \$28.9 million, \$72.1 million and \$48.4 million. Fiscal year 2020 operating cash flows reflect our net loss of \$13.8 million, net increase of noncash charges (depreciation and amortization, stock-based compensation expense, provision for losses on accounts receivable, losses from unconsolidated entities, net losses on Limoneira shares, interest income on Notes to FreshRealm, deferred taxes, loss on disposal of property, plant and equipment, loss on the reserve for FreshRealm and gain on the sale of the Temecula packinghouse) of \$69.2 million and a net decrease from changes in the non-cash components of our working capital accounts of approximately \$26.4 million.

Fiscal year 2020 decreases in operating cash flows, caused by working capital changes, includes a net decrease in trade accounts payable and accrued expenses of \$14.0 million, an increase in income tax receivable of \$8.1 million, an increase in inventory of \$4.2 million, a decrease in payable to growers of \$2.1 million, increase in other assets of \$1.9 million, and an increase in prepaid expenses and other current assets of \$1.0 million, partially offset by, a decrease in advances to suppliers of \$3.1 million and a decrease in accounts receivable of \$1.9 million.

The decrease in accounts payable and accrued expenses is primarily related to a decrease in payables to RFG copackers. The increase in inventory is related to an increase in the volume of prepared frozen guacamole products held in inventory at October 31, 2020 when compared to October 31, 2019. The decrease in payable to growers primarily

reflects a decrease in our avocado grower liability related to Mexican avocado costs. The increase in income taxes receivable/payable is due to the net loss and the timing of estimated payments made during the twelve months ended October 31, 2020. The decrease in advances to suppliers primarily reflects the re-payment of pre-season advances as a result of increased tomato sales. The decrease in our accounts receivable, as of October 31, 2020 when compared to October 31, 2019, primarily due to lower sales in October 2020 compared to October 2019.

Cash used in investing activities was \$31.9 million, \$31.9 million and \$30.2 million for fiscal years 2020, 2019, and 2018. Fiscal year 2020 cash flows used in investing activities includes the purchase of SFFI for \$18.4 million net of cash received, purchases of property, plant and equipment of \$11.3 million, additional investments in FreshRealm of \$1.5 million and infrastructure advances to Don Memo of \$0.7 million.

Cash used in financing activities was \$0.9 million, \$33.8 million and \$23.3 million for fiscal years 2020, 2019 and 2018. Cash used during fiscal year 2020 primarily relates to the payment of our \$19.4 million dividend, the payment of minimum withholding taxes on net share settlement of equity awards of \$1.2 million and payments of \$1.0 million on our long-term debt obligations, partially offset by, net proceeds from our credit facilities totaling \$20.6 million.

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. In addition, we have our investment in Limoneira stock as an additional source of liquidity. Cash and cash equivalents as of October 31, 2020 and 2019 totaled \$4.0 million and \$8.0 million. Our working capital at October 31, 2020 was \$29.6 million, compared to \$36.9 million at October 31, 2019. Our investment in Limoneira stock amounted to \$23.2 million and \$31.7 million at October 31, 2020 and 2019.

We believe that cash flows from operations and the available Credit Facility will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements for at least the next twelve months. We will continue to evaluate grower recruitment opportunities, expanded relationships with retail and club customers, and exclusivity arrangements with food service companies to fuel growth in each of our business segments. We have a revolving credit facility with Bank of America as administrative agent and Merrill Lynch, Pierce, Fenner & Smith Inc. as joint lead arranger and sole bookrunner, and Farm Credit West, as joint lead arranger. Under the terms of this agreement, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under this agreement is \$80 million, and will expire in June 2021. We expect to refinance our line of credit in early fiscal 2021. Upon notice to Bank of America, we may from time to time, request an increase in the Credit Facility by an amount not exceeding \$50 million. For our line of credit the weighted-average interest rate was 1.9% and 3.8% at October 31, 2020 and 2019. Under this credit facility, we had \$20.6 million outstanding as of October 31, 2020 and there was zero outstanding as of October 31, 2019.

This Credit Facility contains customary affirmative and negative covenants for agreements of this type, including the following financial covenants applicable to the Company and its subsidiaries on a consolidated basis: (a) a quarterly consolidated leverage ratio of not more than 2.50 to 1.00 and (b) a quarterly consolidated fixed charge coverage ratio of not less than 1.15 to 1.00. We were in compliance with all such covenants at October 31, 2020.

The following table summarizes contractual obligations pursuant to which we are required to make cash payments. The information is presented as of our fiscal year ended October 31, 2020:

Contractual Obligations (in thousands)	Total	Payments due by period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Long-term obligations and finance leases (including interest)	\$ 8,192	\$ 1,551	\$ 2,717	\$ 1,136	\$ 2,788
Defined benefit plan	91	28	56	7	—
Operating lease commitments	74,877	8,171	15,908	14,320	36,478
Total	<u>\$ 83,160</u>	<u>\$ 9,750</u>	<u>\$ 18,681</u>	<u>\$ 15,463</u>	<u>\$ 39,266</u>

The California avocado industry is subject to a state marketing order whereby handlers are required to collect assessments from the growers and remit such assessments to the California Avocado Commission (CAC). The assessments are primarily for advertising and promotions. The amount of the assessment is based on the dollars paid to

the growers for their fruit, and, as a result, is not determinable until the value of the payments to the growers has been calculated.

Amounts remitted to the Hass Avocado Board (HAB) in connection with their assessment program are likewise not determinable until the fruit is actually delivered to us. HAB assessments are primarily used to fund marketing and promotion efforts.

### **Recently Adopted Accounting Pronouncements**

In June 2018, the FASB issued an ASU, *Improvements to Nonemployee Share-Based Payment Accounting*. The FASB is issuing this update to simplify the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. This ASU was effective for us beginning the first day of our 2020 fiscal year. The adoption of the amendment did not have an impact on the Company's consolidated financial statements.

In February 2018, the FASB issued an ASU, *Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income*, which amends Accounting Standards Codification ("ASC") 220, Income Statement — Reporting Comprehensive Income, to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, (the "Act"). In addition, under the ASU, an entity will be required to provide certain disclosures regarding stranded tax effects. This ASU was effective for us beginning the first day of our 2020 fiscal year. The adoption of the amendment did not have an impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, and has subsequently issued several supplemental and/or clarifying ASU's (collectively, "Topic 842"), which requires a dual approach for lease accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases result in the lessee recognizing a right of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize lease expense on a straight-line basis. See Note 17.

### **Recently Issued Accounting Standards**

In October 2018, the FASB issued ASU 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This ASU provides that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The new guidance is effective for fiscal years beginning after December 15, 2019. This ASU will be effective for us beginning the first day of our 2021 fiscal year. We are evaluating the impact of the adoption of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements.

In September 2018, the FASB issued an ASU, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This ASU requires implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software and deferred over the non-cancellable term of the cloud computing arrangements plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. This ASU will be effective for us beginning the first day of our 2021 fiscal year. We are evaluating the impact of the adoption of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements.

In January 2017, the FASB issued an ASU, *Simplifying the Test for Goodwill Impairment*, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. The ASU permits an entity to perform its annual, or interim, goodwill impairment test by comparing the

fair value of a reporting unit with its carrying amount and to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU will be effective for us beginning the first day of our 2021 fiscal year and is not expected to have a significant impact upon adoption.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Measurement of Credit Losses on Financial Instruments, and subsequent amendments to the guidance*, ASU 2018-19 in November 2018 and ASU 2019-05 in May 2019 including codification improvements to Topic 326 in ASU 2019-04. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The amendment will affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2018-19 clarifies that receivables arising from operating leases are accounted for using lease guidance and not as financial instruments. ASU 2019-05 provides entities that have certain instruments with an option to irrevocably elect the fair value option. The amendments should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. This ASU will be effective for us beginning the first day of our 2021 fiscal year. Early adoption is permitted. We are evaluating the impact of the adoption of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, payable to growers, accounts payable, current and long-term borrowings pursuant to our credit facilities with financial institutions, and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of October 31, 2020.

(All amounts in thousands)

	Expected maturity date October 31,						Total	Fair Value
	2021	2022	2023	2024	2025	Thereafter		
<b>Assets</b>								
Cash and cash equivalents (1)	\$ 4,055	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,055	\$ 4,055
Accounts receivable (1)	63,668	—	—	—	—	—	63,668	63,668
<b>Liabilities</b>								
Payable to growers (1)	\$ 11,346	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 11,346	\$ 11,346
Accounts payable (1)	9,384	—	—	—	—	—	9,384	9,384
Current borrowings pursuant to credit facilities (1)	20,550	—	—	—	—	—	20,550	20,550

(1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, advances to suppliers, payable to growers, accounts payable, and current borrowings pursuant to credit facilities approximate their fair value due to the short maturity of these financial instruments.

We were not a party to any derivative instruments during the fiscal year. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not use any hedging or forward contracts to offset market volatility.

Our Mexican-based operations transact a significant portion of business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. We do not currently use derivative instruments to hedge fluctuations in the Mexican peso to U.S. dollar exchange rates. Management does, however, evaluate this opportunity from time to time. Total foreign currency translation losses for fiscal years 2020, 2019, and 2018, net of gains, were \$1.0 million, \$0.3 million and \$0.8 million.

Item 8. Financial Statements and Supplementary Data

**CALAVO GROWERS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)

	October 31, 2020	October 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,055	\$ 7,973
Accounts receivable, net of allowances of \$3,498 (2020) \$3,366 (2019)	63,668	63,423
Inventories, net	41,787	36,889
Prepaid expenses and other current assets	10,733	9,027
Advances to suppliers	5,061	7,338
Income taxes receivable	10,591	2,865
Total current assets	<u>135,895</u>	<u>127,515</u>
Property, plant, and equipment, net	130,270	132,098
Operating lease right-of-use assets	60,262	—
Investment in Limoneira Company	23,197	31,734
Investments in unconsolidated entities	6,065	10,722
Deferred income taxes	2,486	3,447
Goodwill	28,568	18,262
Notes receivable from FreshRealm	—	35,241
Intangibles, net	10,323	435
Other assets	32,558	30,906
	<u>\$ 429,624</u>	<u>\$ 390,360</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Payable to growers	\$ 11,346	\$ 13,463
Trade accounts payable	9,384	17,421
Accrued expenses	36,922	39,629
Short-term borrowings	20,550	—
Dividend payable	20,343	19,354
Current portion of operating leases	6,443	—
Current portion of long-term obligations and finance leases	1,343	762
Total current liabilities	<u>106,331</u>	<u>90,629</u>
Long-term liabilities:		
Long-term operating leases, less current portion	58,273	—
Long-term obligations and finance leases, less current portion	5,716	5,412
Deferred rent	—	3,681
Other long-term liabilities	3,302	4,769
Total long-term liabilities	<u>67,291</u>	<u>13,862</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock (\$0.001 par value, 100,000 shares authorized; 17,661 (2020) and 17,595 (2019) shares issued and outstanding)	18	18
Additional paid-in capital	165,000	161,606
Noncontrolling interest	1,472	1,688
Retained earnings	89,512	122,557
Total shareholders' equity	<u>256,002</u>	<u>285,869</u>
	<u>\$ 429,624</u>	<u>\$ 390,360</u>

*See accompanying notes to consolidated financial statements.*



**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)

	<u>Year Ended October 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net sales	\$ 1,059,371	\$ 1,195,777	\$ 1,088,758
Cost of sales	969,473	1,067,695	975,142
Gross profit	89,898	128,082	113,616
Selling, general and administrative	57,952	59,113	57,081
Gain on sale of Temecula packinghouse	216	2,077	—
Operating income	32,162	71,046	56,535
Interest income	1,998	2,675	318
Interest expense	(877)	(948)	(831)
Other income, net	553	499	559
Loss on reserve for FreshRealm note receivable and impairment of investment	(37,322)	—	—
Unrealized and realized net loss on Limoneira shares	(8,537)	(9,722)	—
Income (loss) before provision (benefit) for income taxes and loss from unconsolidated entities	(12,023)	63,550	56,581
Income tax benefit (provision)	4,292	(12,882)	(12,719)
Net loss from unconsolidated entities	(6,110)	(14,082)	(11,850)
Net income (loss)	(13,841)	36,586	32,012
Less: Net loss attributable to noncontrolling interest	216	60	269
Net income (loss) attributable to Calavo Growers, Inc.	<u>\$ (13,625)</u>	<u>\$ 36,646</u>	<u>\$ 32,281</u>
<b>Calavo Growers, Inc.'s net income (loss) per share:</b>			
Basic	<u>\$ (0.78)</u>	<u>\$ 2.09</u>	<u>\$ 1.85</u>
Diluted	<u>\$ (0.78)</u>	<u>\$ 2.08</u>	<u>\$ 1.84</u>
<b>Number of shares used in per share computation:</b>			
Basic	<u>17,564</u>	<u>17,519</u>	<u>17,477</u>
Diluted	<u>17,564</u>	<u>17,593</u>	<u>17,568</u>

*See accompanying notes to consolidated financial statements.*

**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in thousands)

	Year ended October 31,		
	2020	2019	2018
Net income (loss)	\$ (13,841)	\$ 36,586	\$ 32,012
Other comprehensive income, before tax:			
Unrealized investment gains	—	—	2,247
Income tax expense related to items of other comprehensive income	—	—	(540)
Other comprehensive income, net of tax	—	—	1,707
Comprehensive income (loss)	(13,841)	36,586	33,719
Less: Net loss attributable to noncontrolling interest	216	60	269
Comprehensive income (loss) – Calavo Growers, Inc.	<u>\$ (13,625)</u>	<u>\$ 36,646</u>	<u>\$ 33,988</u>

*See accompanying notes to consolidated financial statements.*

**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest	Total
	Shares	Amount					
<b>Balance, October 31, 2017</b>	17,533	18	154,243	10,434	78,411	1,016	244,122
Exercise of stock options and income tax benefit	3	—	53	—	—	—	53
Stock compensation expense	—	—	3,742	—	—	—	3,742
Restricted stock issued	31	—	891	—	—	—	891
Unrealized gain on Limoneira investment, net	—	—	—	1,707	—	—	1,707
Dividend declared to shareholders (\$1.00 per share)	—	—	—	—	(17,568)	—	(17,568)
Noncash transfer of noncontrolling interest	—	—	(1,001)	—	—	1,001	—
Avocados de Jalisco noncontrolling interest	—	—	—	—	—	(269)	(269)
Net income attributable to Calavo Growers, Inc	—	—	—	—	32,281	—	32,281
<b>Balance, October 31, 2018</b>	17,567	18	157,928	12,141	93,124	1,748	264,959
Exercise of stock options and income tax benefit	4	—	85	—	—	—	85
Stock compensation expense	—	—	3,593	—	—	—	3,593
Restricted stock issued	24	—	—	—	—	—	—
Unrealized gains on Limoneira investment reclassified to retained earnings	—	—	—	(12,141)	12,141	—	—
Dividend declared to shareholders (\$1.10 per share)	—	—	—	—	(19,354)	—	(19,354)
Avocados de Jalisco noncontrolling interest	—	—	—	—	—	(60)	(60)
Net income attributable to Calavo Growers, Inc.	—	—	—	—	36,646	—	36,646
<b>Balance, October 31, 2019</b>	17,595	18	161,606	—	122,557	1,688	285,869
Exercise of stock options and income tax benefit	2	—	86	—	—	—	86
Stock compensation expense	—	—	4,487	—	—	—	4,487
Restricted stock issued	64	—	—	—	—	—	—
Dividend declared to shareholders (\$1.15 per share)	—	—	—	—	(20,343)	—	(20,343)
Payments of minimum withholding taxes on net share settlement of equity awards	—	—	(1,179)	—	—	—	(1,179)
Avocados de Jalisco noncontrolling interest	—	—	—	—	—	(216)	(216)
Cumulative effect adjustment on ASC 842 related to leases	—	—	—	—	923	—	923
Net loss attributable to Calavo Growers, Inc.	—	—	—	—	(13,625)	—	(13,625)
<b>Balance, October 31, 2020</b>	<u>17,661</u>	<u>\$ 18</u>	<u>\$ 165,000</u>	<u>\$ —</u>	<u>\$ 89,512</u>	<u>\$ 1,472</u>	<u>\$ 256,002</u>

*See accompanying notes to consolidated financial statements.*

**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF CASHFLOWS (in thousands)**

	<b>Year Ended October 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities:</b>			
Net income (loss)	\$ (13,841)	\$ 36,586	\$ 32,012
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	16,093	13,633	13,042
Non-cash operating lease expense	176	—	—
Provision for losses on accounts receivable	22	35	(10)
Net loss from unconsolidated entities	6,110	14,082	11,851
Unrealized and realized net loss on Limoneira shares	8,537	9,722	—
Loss on reserve for FreshRealm note receivable and impairment of investment	37,322	—	—
Interest income on notes to FreshRealm	(1,732)	(2,435)	—
Stock-based compensation expense	4,487	3,593	4,633
Gain on sale of Temecula packinghouse	(216)	(2,077)	—
Loss on disposal of property, plant, and equipment	32	304	121
Deferred income taxes	(1,930)	930	4,866
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable, net	1,859	2,685	3,617
Inventories, net	(4,206)	(1,845)	(4,186)
Prepaid expenses and other current assets	(782)	(2,508)	(729)
Advances to suppliers	3,077	(983)	(1,009)
Income taxes receivable/payable	(8,115)	656	(2,144)
Other assets	(1,871)	(4,991)	(3,118)
Payable to growers	(2,117)	(538)	(2,524)
Deferred rent	—	1,004	(54)
Trade accounts payable, accrued expenses and other long-term liabilities	(14,027)	4,246	(7,942)
Net cash provided by operating activities	<u>28,878</u>	<u>72,099</u>	<u>48,426</u>
<b>Cash Flows from Investing Activities:</b>			
Acquisitions of and deposits on property, plant, and equipment	(11,343)	(16,721)	(15,004)
Acquisition of SFFI, net of cash acquired of \$623	(18,396)	—	—
Investment in unconsolidated entities	(1,477)	—	(3,636)
Proceeds received for repayment of San Rafael note	—	417	436
Proceeds received from Limoneira stock sales	—	1,154	—
Proceeds from sale of Temecula packinghouse	—	7,100	—
Infrastructure advance to tomato growers	(715)	—	(3,000)
Notes receivables advanced to FreshRealm	—	(23,800)	(11,500)
Proceeds received for repayment of loan to FreshRealm	—	—	2,500
Net cash used in investing activities	<u>(31,931)</u>	<u>(31,850)</u>	<u>(30,204)</u>
<b>Cash Flows from Financing Activities:</b>			
Payment of dividend to shareholders	(19,354)	(17,568)	(16,657)
Proceeds from revolving credit facility	236,500	212,500	278,500
Payments on revolving credit facility	(215,950)	(227,500)	(283,500)
Payments of minimum withholding taxes on net share settlement of equity awards	(1,179)	(1,008)	(1,587)
Payments on long-term obligations and finance leases	(968)	(305)	(136)
Proceeds from stock option exercises	86	85	53
Net cash used in financing activities	<u>(865)</u>	<u>(33,796)</u>	<u>(23,327)</u>
Net increase (decrease) in cash and cash equivalents	(3,918)	6,453	(5,105)
Cash and cash equivalents, beginning of period	7,973	1,520	6,625
Cash and cash equivalents, end of period	<u>\$ 4,055</u>	<u>\$ 7,973</u>	<u>\$ 1,520</u>
<b>Supplemental Information:</b>			
Cash paid during the year for:			
Interest	\$ 878	\$ 1,108	\$ 874
Income taxes	<u>\$ 5,470</u>	<u>\$ 10,224</u>	<u>\$ 9,262</u>
<b>Noncash Investing and Financing Activities:</b>			
Right of use assets obtained in exchange for new financing lease obligations	\$ 529	\$ —	\$ —
Notes receivable from FreshRealm converted to investment in FreshRealm	<u>\$ 2,761</u>	<u>\$ —</u>	<u>\$ —</u>
Declared dividends payable	<u>\$ 20,343</u>	<u>\$ 19,354</u>	<u>\$ 17,568</u>
Acquisitions of property, plant, and equipment with capital lease	<u>\$ —</u>	<u>\$ 2,827</u>	<u>\$ —</u>
Capital lease related to Temecula packinghouse	<u>\$ —</u>	<u>\$ 3,306</u>	<u>\$ —</u>
Property, plant, and equipment included in trade accounts payable and accrued expenses	<u>\$ 568</u>	<u>\$ 2,059</u>	<u>\$ 946</u>
Collection for Agricola Belher Infrastructure Advance	<u>\$ 800</u>	<u>\$ 800</u>	<u>\$ 200</u>
Unrealized investment gain	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,247</u>

*See accompanying notes to consolidated financial statements.*

**CALAVO GROWERS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of the business**

***Business***

Calavo Growers, Inc. (Calavo, the Company, we, us or our), is a global leader in the avocado industry and a provider of value-added fresh food. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesalers on a worldwide basis. We procure avocados from California, Mexico and other growing regions around the world. Through our various operating facilities, we (i) sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas, (ii) create, process and package a portfolio of healthy fresh foods including fresh-cut fruit and vegetables, and prepared foods and (iii) process and package guacamole and salsa. We distribute our products both domestically and internationally and report our operations in three different business segments: Fresh products, Renaissance Food Group (RFG) and Calavo Foods.

**2. Basis of Presentation and Significant Accounting Policies**

The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the U.S.

Our consolidated financial statements include the accounts of Calavo Growers, Inc. and our wholly owned subsidiaries, Calavo de Mexico S.A. de C.V. (Calavo de Mexico), Calavo Growers de Mexico, S. de R.L. de C.V. ( Calavo Growers de Mexico), Maui Fresh International, Inc. (Maui), Hawaiian Sweet, Inc. (HS), Hawaiian Pride, LLC (HP), Calavo Salsa Lisa, LLC (CSL), Avocados de Jalisco, S.A.P.I. de C.V. (Avocados de Jalisco), in which we have an 83 percent ownership interest, and RFG. All intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Among the significant estimates affecting the financial statements are those related to valuation allowances for valuation allowances for accounts and notes receivable, goodwill, grower advances, inventories, long-lived assets, valuation of and estimated useful lives of identifiable intangible assets, stock-based compensation, promotional allowances and income taxes. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates.

***Reclassification of Prior Year Presentation***

Certain prior year amounts have been reclassified for consistency with the current year presentation. Specifically, intangible assets are now presented as a separate line item on the accompanying consolidated balance sheet, and were previously included within other assets.

***Cash and Cash Equivalents***

We consider all highly liquid financial instruments purchased with an original maturity date of three months or less to be cash equivalents. The carrying amounts of cash and cash equivalents approximate their fair values.

***Prepaid Expenses and Other Current Assets***

Prepaid expenses and other current assets consist primarily of non-trade receivables, infrastructure advances and prepaid expenses. Non-trade receivables were \$5.7 million and \$5.3 million at October 31, 2020 and 2019. Included in

non-trade receivables are \$1.5 million and \$1.9 million related to the current portion of non-CDM Mexican IVA (i.e. value-added) taxes at October 31, 2020 and 2019 (See Note 15). Infrastructure advances are discussed below. Prepaid expenses totaling \$4.2 million and \$3.4 million at October 31, 2020 and 2019, are primarily for insurance, rent and other items.

### ***Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is computed on a monthly weighted-average basis, which approximates the first-in, first-out method; market is based upon estimated replacement costs. Costs included in inventory primarily include the following: fruit, picking and hauling, overhead, labor, materials and freight.

### ***Property, Plant, and Equipment***

Property, plant, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are stated at cost and amortized over the lesser of their estimated useful lives or the term of the lease, using the straight-line method. Useful lives are as follows: buildings and improvements - 7 to 50 years; leasehold improvements - the lesser of the term of the lease or 7 years; equipment - 7 to 25 years; information systems hardware and software - 3 to 10 years. Significant repairs and maintenance that increase the value or extend the useful life of our fixed asset are capitalized. On-going maintenance and repairs are charged to expense.

### ***Goodwill and Acquired Intangible Assets***

Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. We can use a qualitative test, known as "Step 0," or a two-step quantitative method to determine whether impairment has occurred. In Step 0, we elect to perform an optional qualitative analysis and based on the results skip the two step analysis. In fiscal 2020, 2019 and 2018, we elected to implement Step 0 and were not required to conduct the remaining two step analysis. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. The results of our Step 0 assessments indicated that it was more likely than not that the fair value of our reporting unit exceeded its carrying value and therefore we concluded that there were no impairments for the years ended October 31, 2020, 2019 and 2018.

### ***Long-lived Assets***

Long-lived assets, including fixed assets and intangible assets (other than goodwill), are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. For fiscal years 2020 and 2019, we performed our annual assessment of long-lived assets and determined that no impairment existed as of October 31, 2020 and 2019.

## **Investments**

We account for non-marketable investments using the equity method of accounting if the investment gives us the ability to exercise significant influence over, but not control, an investee. Significant influence generally exists when we have an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and our proportionate share of earnings or losses and distributions.

In December 2014, Calavo formed a wholly owned subsidiary Calavo Growers De Mexico, S. de R.L. de C.V. (Calavo Sub). In July 2015, Calavo Sub entered into a Shareholder Agreement with Grupo Belo del Pacifico, S.A. de C.V., (Belo) a Mexican Company owned by Agricola Belher, and Agricola Don Memo, S.A. de C.V. (Don Memo). Don Memo, a Mexican corporation formed in July 2013, is engaged in the business of owning and improving land in Jalisco, Mexico for the growing of tomatoes and other produce and the sale and distribution of tomatoes and other produce. Belo and Calavo Sub have an equal one-half ownership interest in Don Memo. Pursuant to a management service agreement, Belo, through its officers and employees, shall have day-to-day power and authority to manage the operations. In fiscal 2018, we contributed \$0.1 million as investments in Don Memo. This investment contribution represent Calavo Sub's 50% ownership in Don Memo, which is included in investment in unconsolidated entities on our balance sheet. We use the equity method to account for this investment. As of October 31, 2020 and 2019, we have an investment of \$6.1 million and \$4.9 million in Don Memo.

As of October 31, 2019, we have an equity investment of \$5.8 million in FreshRealm, LLC (FreshRealm). During the quarter ended July 31, 2020, we concluded that there was no longer any value associated with our FreshRealm investment and therefore recognized a \$2.8 million impairment charge to fully impair the investment. FreshRealm will likely require additional capital in order to continue as a going concern. We do not plan to invest or loan any additional capital to FreshRealm. We have performed a valuation analysis of the financial condition and projected operations of FreshRealm under various methods, including liquidation, exit multiple, and perpetual growth approaches, appropriately weighted for the circumstances. We record the amount of our investment in FreshRealm in "Investment in unconsolidated entities" on our Consolidated Balance Sheets and recognize losses in FreshRealm in "Income/ (loss) from unconsolidated entities" in our Consolidated Statement of Operations. See Note 16 and Note 20 for additional information. As of October 31, 2020, our ownership percentage in FreshRealm was approximately 37%.

## **Marketable Securities**

Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own less than 10% of Limoneira's outstanding common stock. These securities are considered available for sale securities based on management's intent with respect to such securities and are carried at fair value as determined from quoted market prices.

On November 1, 2018 we adopted ASU 2016-01, *Financial Instruments, Recognition and Measurement of Financial Assets and Liabilities*, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. With the adoption of this new standard, we reclassified unrealized gains of \$12.1 million in accumulated other comprehensive income to retained earnings as of November 1, 2018. For the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of \$0.1 million in our consolidated statements of operations. Limoneira's stock price at October 31, 2020, 2019, and 2018 equaled \$13.83 per share, \$18.92 per share, and \$24.65 per share. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to \$13.83 per share and \$18.92 per share at October 31, 2020 and 2019, as a result, we recorded a loss of \$8.5 million and \$9.6 million for the year ended October 31, 2020 and 2019 in our consolidated statements of operations.

## **Advances to Suppliers**

We advance funds to third-party growers primarily in Mexico for various farming needs. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. We

continuously evaluate the ability of these growers to repay advances in order to evaluate the possible need to record an allowance. No such allowance was required at October 31, 2020 and 2019.

Pursuant to our distribution agreement, which was amended in fiscal 2011, with Agricola Belher (Belher) of Mexico, a producer of fresh vegetables, primarily tomatoes, for export to the U.S. market, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our company, primarily our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, make advances to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. These advances will be collected through settlements by the end of each year. For fiscal 2020 and 2019, we agreed to advance \$4.5 million and \$4.5 million for pre-season advances. As of October 31, 2020 and 2019, we have total advances of \$4.5 million and \$4.5 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

Similar to Belher, we make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from such tomato sales to Don Memo, net of our commission and aforementioned advances. As of October 31, 2020 and 2019, we have total advances of \$2.4 million and \$3.7 million to Don Memo, which is recorded in advances to suppliers, offset by tomato liabilities from the sales of tomatoes per the tomato marketing agreement.

### ***Infrastructure Advances***

Pursuant to our infrastructure agreements, we make advances to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned/controlled by Belher and Don Memo, as well as packing line equipment.

In October 2020, we entered into an infrastructure loan agreement with Don Memo for \$2.4 million secured by Don Memo's property and equipment. This infrastructure loan will incur interest at 7.25%. In October 2020, we paid \$0.7 million related to this agreement, and the remaining \$1.7 million will be paid in January 2021. As of October 31, 2020, we have advanced a total of \$0.7 million 2021 (\$0.4 million is included in prepaids and other current assets and \$0.3 million in other assets).

In August 2018, we entered into an amended infrastructure loan agreement with Belher and advanced \$3.0 million. This amount shall be paid back in annual installments of \$0.6 million through June 2023, and incurs interest at Libor plus 10%. Loans prior to this amended agreement incur interest at Libor plus 3.0%. In August 2020, we have agreed to amend the terms of this agreement to lower the interest rate to 7.25% and changed the repayment terms to two years (\$0.9 million per year).

As of October 31, 2020, we have loaned a total of \$1.8 million (\$0.9 million included in prepaid expenses and other current assets and \$0.9 million included in other long-term assets). As of October 31, 2019, we have loaned a total of \$2.6 million (\$0.8 million included in prepaid expenses and other current assets and \$1.8 million included in other long-term assets). Belher may prepay, without penalty, all or any portion of the loans at any time. In order to secure their obligations pursuant to both agreements discussed above, Belher granted us a first-priority security interest in certain assets, including cash, inventory and fixed assets, as defined.

### ***Accrued Expenses***

Included in accrued expenses are liabilities related to the receipt of goods and/or services for which an invoice has not yet been received. These totaled approximately \$26.4 million and \$18.7 million for the year ended October 31, 2020 and 2019.

### ***Revenue Recognition***

Effective at the beginning of our fiscal 2019, the Company adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, and all the related amendments (Accounting Standards Codification (ASC)



606) using the modified retrospective method of adoption. ASC 606 consists of a comprehensive revenue recognition standard, which requires the recognition of revenue when control of promised goods are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled.

The Company recognizes revenue when obligations under the terms of a contract with its customer are satisfied; generally, this occurs with the transfer of control of its products. Revenue is measured as the amount of net consideration expected to be received in exchange for transferring products. Revenue from product sales is governed primarily by customer pricing and related purchase orders ("contracts") which specify shipping terms and certain aspects of the transaction price including rebates, discounts and other sales incentives. Contracts are at standalone pricing. The performance obligation in these contracts is determined by each of the individual purchase orders and the respective stated quantities, with revenue being recognized at a point in time when obligations under the terms of the agreement are satisfied. This generally occurs with the transfer of control of our products to the customer and the product is delivered. The Company's customers have an implicit and explicit right to return non-conforming products. A provision for payment discounts and product return allowances, which is estimated, is recorded as a reduction of sales in the same period that the revenue is recognized.

#### *Sales Incentives and Other Promotional Programs*

The Company routinely offers sales incentives and discounts through various regional and national programs to our customers and consumers. These programs include product discounts or allowances, product rebates, product returns, one-time or ongoing trade-promotion programs with customers and consumer coupon programs that require the Company to estimate and accrue the expected costs of such programs. The costs associated with these activities are accounted for as reductions to the transaction price of the Company's products and are, therefore, recorded as reductions to gross sales at the time of sale. The Company bases its estimates of incentive costs on historical trend experience with similar programs, actual incentive terms per customer contractual obligations and expected levels of performance of trade promotions, utilizing customer and sales organization inputs. The Company maintains liabilities at the end of each period for the estimated incentive costs incurred but unpaid for these programs. Differences between estimated and actual incentive costs are generally not material and are recognized in earnings in the period such differences are determined. Reserves for product returns, accrued rebates and promotional accruals are included in the consolidated balance sheets as part of accrued expenses.

#### *Principal vs. Agent Considerations*

We frequently enter into consignment arrangements with avocado and tomato growers and packers located outside of the U.S. and growers of certain perishable products in the U.S. We evaluate whether its performance obligation is a promise to transfer services to the customer (as the principal) or to arrange for services to be provided by another party (as the agent) using a control model. This evaluation determined that the Company is in control of establishing the transaction price, managing all aspects of the shipments process and taking the risk of loss for delivery, collection, and returns. Based on the Company's evaluation of the control model, it determined that all of the Company's major businesses act as the principal rather than the agent within their revenue arrangements and such revenues are reported on a gross basis.

#### *Practical Expedients*

The Company elected the following practical expedients upon its adoption of Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606).

- *Shipping and handling costs* - The company elected to account for shipping and handling activities that occur before the customer has obtained control of a good as fulfillment activities rather than as a promised service.
- *Measurement of transaction price* - The Company has elected to exclude from the measurement of transaction price all taxes assessed by a governmental authority that are both imposed on, and concurrent with, a specific revenue-producing transaction and collected by the Company from a customer for sales taxes.

- *Contract costs* - The Company has elected to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period is one year or less.

The adoption of ASC 606 did not have an impact on our consolidated results of operations.

## **Customers**

We sell to retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesale customers. Our top ten customers accounted for approximately 56%, 59% and 59% of our consolidated net sales in fiscal years 2020, 2019 and 2018. Sales to our largest customer, Kroger (including its affiliates), represented approximately 18%, 21%, and 20% of net sales in each of fiscal years 2020, 2019, and 2018. Additionally, Wal-Mart (including its affiliates) represented approximately 12%, 13% and 10% of net sales in fiscal years 2020, 2019 and 2018. No other single customer accounted for more than 10% of our net sales in any of the last three fiscal years.

## ***Shipping and Handling***

We include shipping and handling fees billed to customers in net revenues. Amounts incurred by us for freight are included in cost of goods sold.

## ***Promotional Allowances***

We provide for promotional allowances at the time of sale, based on our historical experience. Our estimates are generally based on evaluating the historical relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period's sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued expenses. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified.

## ***Allowance for Accounts Receivable***

We provide an allowance of \$3.5 million and \$3.4 million for estimated uncollectible accounts receivable balances based on historical experience and the aging of the related accounts receivable as of October 31, 2020 and 2019.

## ***Loss on Reserve for FreshRealm Note Receivable and Impairment of Investment***

At the beginning of fiscal year 2020, we had a note receivable from FreshRealm totaling \$35.2 million which have been fully reserved during fiscal 2020. See Note 16 and Note 20 for further information. During the third quarter of fiscal 2020, the results of operations of FreshRealm deteriorated significantly from our expectations three months prior, with declining sales and continuing losses. FreshRealm will likely require additional capital in order to continue as a going concern. We do not plan to invest or loan any additional capital to FreshRealm.

## ***Consignment Arrangements***

We frequently enter into consignment arrangements with avocado and tomato growers and packers located outside of the U.S. and growers of certain perishable products in the U.S. Although we generally do not take legal title to these avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, the accompanying financial statements include sales and cost of sales from the sale of avocados and perishable products

procured under consignment arrangements. Amounts recorded for each of the fiscal years ended October 31, 2020, 2019 and 2018 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Sales	\$ 64,922	\$ 64,510	\$ 43,490
Cost of Sales	57,554	57,061	38,186
Gross Profit	<u>\$ 7,368</u>	<u>\$ 7,449</u>	<u>\$ 5,304</u>

#### ***Advertising Expense***

Advertising costs are expensed when incurred and are generally included as a component of selling, general and administrative expense. Such costs were approximately \$0.4 million, \$0.3 million and \$0.2 million for fiscal years 2020, 2019, and 2018.

#### ***Research and Development***

Research and development costs are expensed as incurred and are generally included as a component of selling, general and administrative expense. Total research and development costs for fiscal year 2020 was approximately \$0.7 million. Total research and development costs for fiscal years 2019 and 2018 were less than \$0.1 million.

#### ***Other Income***

Included in other income is dividend income totaling \$0.6 million for fiscal year 2020. Dividend income totaled \$0.6 million and \$0.6 million for fiscal years 2019 and 2018. See Note 8 for related party disclosure related to other income.

#### ***Income Taxes***

We account for deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, we perform an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, the liability will be reversed and we will recognize a tax benefit during the period in which it is determined the liability no longer applies. Conversely, we record additional tax charges in a period in which it is determined that a recorded tax liability is less than the ultimate assessment is expected to be.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

### **Basic and Diluted Net Income (loss) per Share**

Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of stock options and contingent consideration. Diluted earnings per common share is calculated using the weighted-average number of common shares outstanding during the period after consideration of the dilutive effect of stock options and the effect of contingent consideration shares.

Basic and diluted net income per share is calculated as follows (U.S. dollars in thousands, except per share data):

	Year ended October 31,		
	2020	2019	2018
<b>Numerator:</b>			
Net income (loss) attributable to Calavo Growers, Inc.	\$ (13,625)	\$ 36,646	\$ 32,281
<b>Denominator:</b>			
Weighted average shares – Basic	17,564	17,519	17,477
Effect of dilutive securities – Restricted stock/options	—	74	91
Weighted average shares – Diluted	<u>17,564</u>	<u>17,593</u>	<u>17,568</u>
<b>Net income (loss) per share attributable to Calavo Growers, Inc:</b>			
Basic	\$ (0.78)	\$ 2.09	\$ 1.85
Diluted	\$ (0.78)	\$ 2.08	\$ 1.84

### **Stock-Based Compensation**

We account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in our statements of operations. We measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest.

For the years ended October 31, 2020, 2019 and 2018, we recognized compensation expense of \$4.5 million, \$3.6 million, and \$4.6 million related to stock-based compensation (See Note 12). The value of the stock-based compensation was determined from quoted market prices at the date of the grant.

### **Foreign Currency Translation and Remeasurement**

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized currently in income. Total foreign currency translation losses for fiscal 2020, 2019 and 2018, net of gains, were \$1.0 million, \$0.3 million, and \$0.8 million.

### **Fair Value of Financial Instruments**

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings approximates fair value based on either their short-term nature or on terms currently available to the Company in financial markets. Due to current market rates, we believe that our fixed-rate long-term obligations and finance leases have nearly the same fair value and carrying value of approximately \$7.1 million and \$6.2 million as of October 31, 2020 and 2019.

### **Deferred Rent**

As part of certain lease agreements, we receive construction allowances from our landlords. The construction allowances are deferred and amortized on a straight-line basis over the life of the lease as a reduction to rent expense. At

the beginning of fiscal 2020, we have adopted the new lease accounting standard and as a result deferred rent is no longer recorded. See Note 17 for further information.

### ***Derivative Financial Instruments***

We were not a party to any material derivative instruments during the fiscal year. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not use any hedging or forward contracts to offset market volatility.

### ***Recently Issued Accounting Standards***

In October 2018, the FASB issued ASU 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This ASU provides that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The new guidance is effective for fiscal years beginning after December 15, 2019. This ASU will be effective for us beginning the first day of our 2021 fiscal year. We are evaluating the impact of the adoption of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements.

In September 2018, the FASB issued an ASU, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This ASU requires implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software and deferred over the non-cancellable term of the cloud computing arrangements plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. This ASU will be effective for us beginning the first day of our 2021 fiscal year. We are evaluating the impact of the adoption of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements.

In January 2017, the FASB issued an ASU, *Simplifying the Test for Goodwill Impairment*, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. The ASU permits an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU will be effective for us beginning the first day of our 2021 fiscal year and is not expected to have a significant impact upon adoption.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Measurement of Credit Losses on Financial Instruments, and subsequent amendments to the guidance*, ASU 2018-19 in November 2018 and ASU 2019-05 in May 2019 including codification improvements to Topic 326 in ASU 2019-04. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The amendment will affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2018-19 clarifies that receivables arising from operating leases are accounted for using lease guidance and not as financial instruments. ASU 2019-05 provides entities that have certain instruments with an option to irrevocably elect the fair value option. The amendments should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. This ASU will be effective for us beginning the first day of our 2021 fiscal year. Early adoption is permitted. We are evaluating the impact of the adoption of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements

### Comprehensive Income

Comprehensive income is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. For the fiscal year ended October 31, 2018, other comprehensive income includes the unrealized gain on our Limoneira investment totaling \$1.7 million, net of income taxes. Limoneira's stock price at October 31, 2018 equaled \$24.65 per share.

On November 1, 2018 we adopted a new accounting standard, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. With the adoption of this new standard, we reclassified unrealized gains of \$12.1 million in accumulated other comprehensive income to retained earnings as of November 1, 2018. For the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of \$0.1 million in our consolidated statements of operations. Limoneira's stock price at October 31, 2020, 2019, and 2018 equaled \$13.83 per share, \$18.92 per share, and \$24.65 per share. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to \$13.83 per share and \$18.92 per share at October 31, 2020 and 2019, as a result, we recorded a loss of \$8.5 million and \$9.6 million for the year ended October 31, 2020 and 2019 in our consolidated statements of operations.

### Noncontrolling Interest

The following tables reconcile shareholders' equity attributable to noncontrolling interest related to Avocados de Jalisco (in thousands).

<u>Avocados de Jalisco noncontrolling interest</u>	<u>Year ended October 31, 2020</u>	<u>Year ended October 31, 2019</u>
Noncontrolling interest, beginning	\$ 1,688	\$ 1,748
Net loss attributable to noncontrolling interest of Avocados de Jalisco	(216)	(60)
Noncontrolling interest, ending	<u>\$ 1,472</u>	<u>\$ 1,688</u>

### 3. Inventories

Inventories consist of the following (in thousands):

	<u>October 31, 2020</u>	<u>October 31, 2019</u>
Fresh fruit	\$ 14,677	\$ 15,874
Packing supplies and ingredients	12,540	11,370
Finished prepared foods	14,570	9,645
	<u>\$ 41,787</u>	<u>\$ 36,889</u>

We assess the recoverability of inventories through an ongoing review of inventory levels in relation to sales and forecasts and product marketing plans. When the inventory on hand, at the time of the review, exceeds the foreseeable demand, the value of inventory that is not expected to be sold is written down. The amount of the write-down is the excess of historical cost over estimated realizable value. Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

The assessment of the recoverability of inventories and the amounts of any write-downs are based on currently available information and assumptions about future demand and market conditions. Demand for processed avocado products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than our projections. In the event that actual demand is lower than originally projected, additional inventory write-downs may be required.

#### 4. Property, Plant, and Equipment

Property, plant, and equipment consist of the following (in thousands):

	October 31,	
	2020	2019
Land	\$ 11,008	\$ 11,008
Buildings and improvements	44,984	45,614
Leasehold improvements	33,047	26,267
Equipment	108,505	99,237
Information systems - hardware and software	11,385	10,822
Construction in progress	5,244	10,351
	<u>214,173</u>	<u>203,299</u>
Less accumulated depreciation and amortization	(83,903)	(71,201)
	<u>\$ 130,270</u>	<u>\$ 132,098</u>

Depreciation expense was \$13.9 million, \$13.0 million and \$11.9 million for fiscal years 2020, 2019, and 2018. Included in property, plant, and equipment is finance leases. Amortization of finance leases was \$1.0 million for fiscal year 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*, and has subsequently issued several supplemental and/or clarifying ASU's (collectively, "Topic 842"), which requires a dual approach for lease accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases result in the lessee recognizing a right of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize lease expense on a straight-line basis. See Note 17.

#### 5. Other Assets and Intangibles

Other assets consist of the following (in thousands):

	October 31,	October 31,
	2020	2019
Mexican IVA (i.e. value-added) taxes receivable (see note 15)	\$ 30,126	\$ 27,592
Infrastructure loan to Agricola Belher and Agricola Don Memo	1,215	1,800
Other	1,217	1,514
	<u>\$ 32,558</u>	<u>\$ 30,906</u>

The intangible assets consist of the following (in thousands):

	Weighted-Average Useful Life	October 31, 2020			October 31, 2019		
		Gross Carrying Value	Accum. Amortization	Net Book Value	Gross Carrying Value	Accum. Amortization	Net Book Value
Customer list/relationships	7 years	\$ 17,340	\$ (8,613)	\$ 8,727	\$ 7,640	\$ (7,640)	\$ —
Trade names	11 years	4,060	(2,852)	1,208	2,760	(2,760)	—
Trade secrets/recipes	9 years	630	(517)	113	630	(470)	160
Brand name intangibles	indefinite	275	—	275	275	—	275
Intangibles, net		<u>\$ 22,305</u>	<u>\$ (11,982)</u>	<u>\$ 10,323</u>	<u>\$ 11,305</u>	<u>\$ (10,870)</u>	<u>\$ 435</u>

We recorded amortization expense of approximately \$1.1 million, \$0.7 million, and \$1.1 million for fiscal years 2020, 2019, and 2018. We anticipate recording amortization expense of approximately \$1.6 million for each of fiscal years 2021 through 2022, \$1.5 million for each fiscal years 2023 through 2024 and \$4.1 million thereafter.

## **6. Revolving Credit Facilities**

We have a revolving credit facility with Bank of America, N.A. (Bank of America) as administrative agent and Merrill Lynch, Pierce, Fenner & Smith Inc. as joint lead arranger and sole bookrunner, and Farm Credit West (FCW), as joint lead arranger. The Credit Agreement provides for a five-year, \$80 million syndicated senior unsecured revolving credit facility maturing on June 14, 2021 (the Credit Facility). For our line of credit the weighted-average interest rate was 1.9% and 3.8% at October 31, 2020 and 2019. Under this credit facility, we had \$20.6 million outstanding as of October 31, 2020 and there was zero outstanding as of October 31, 2019.

We expect to refinance our line of credit in early fiscal 2021. We believe that cash flows from operations, the available Credit Facility, and other sources such as our investment in Limoneira, will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements for at least the next twelve months.

Provided there exists no default, upon notice to Bank of America, the Company may from time to time, request an increase in the Credit Facility by an amount not exceeding \$50 million (the Accordion). Any future exercises of the Accordion would require additional commitments from existing or new lenders.

Borrowings under the Credit Facility will be at the Company's discretion either at a Eurodollar Rate (LIBOR) loan plus applicable margin or a base rate loan plus applicable margin. The applicable margin will be based on the Company's Consolidated Leverage Ratio and can range from 1.00% to 1.50% for LIBOR loans and 0.00% to 0.50% for Base Rate Loans. The Credit Facility also includes a commitment fee on the unused commitment amount at a rate per annum of 0.15%.

The Credit Facility contains customary affirmative and negative covenants for agreements of this type, including the following financial covenants applicable to the Company and its subsidiaries on a consolidated basis: (a) a quarterly consolidated leverage ratio of not more than 2.50 to 1.00 and (b) a quarterly consolidated fixed charge coverage ratio of not less than 1.15 to 1.00. We were in compliance with all such covenants at October 31, 2020 and 2019.

The Credit Facility also contains customary events of default. If any event of default occurs and is continuing, Bank of America may take the following actions: (a) declare the commitment of each lender to make loans and any obligation of the Issuer to make credit extensions to be terminated; (b) declare the unpaid principal amount of all outstanding loans, all interest, and all other amounts to be immediately due and payable; (c) require that Calavo cash collateralize the obligations; and (d) exercise on behalf of itself, the lenders and the Issuer all rights and remedies available to it.

## **7. Commitments and Contingencies**

### ***Commitments and guarantees***

We lease facilities and certain equipment under non-cancelable leases expiring at various dates through 2031. We are committed to make minimum cash payments under these agreements as of October 31, 2020. See Note 17 for the adoption of the new lease accounting standard.

In April 2019, we sold our Temecula, California packinghouse for \$7.1 million in cash and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. In connection with the capital lease we capitalized \$3.2 million as a capital lease in property, plant and equipment and recorded a lease liability of \$3.2 million (\$0.1 million in current portion and \$3.1 million in long term debt).

During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods



products for our RFG business segment. Annual rent for the building and equipment approximates \$0.9 million and \$0.6 million, respectively, over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and capitalized \$2.8 million as a capital lease in property, plant and equipment and recorded \$2.8 million as a lease obligation.

We indemnify our directors and have the power to indemnify each of our officers, employees and other agents, to the maximum extent permitted by applicable law. No amounts have been accrued in the accompanying financial statements related to these indemnifications.

### ***Litigation***

From time to time, we are also involved in litigation arising in the ordinary course of our business that we do not believe will have a material adverse impact on our financial statements.

### ***Mexico tax audits***

We conduct business both domestically and internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States. During our third quarter of fiscal 2016, our wholly owned subsidiary, Calavo de Mexico (CDM), received a written communication from the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico (MFM) containing preliminary observations related to a fiscal 2011 tax audit of such subsidiary. MFM's preliminary observations outline certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and Value Added Tax (IVA). During the period from our fourth fiscal quarter of 2016 through our first fiscal quarter of 2019, we attempted to resolve our case with the MFM through working meetings attended by representatives of the MFM, CDM and PRODECON (Local Tax Ombudsman). However, we were unable to materially resolve our case with the MFM through the PRODECON process.

As a result, in April 2019, the MFM issued a final tax assessment to CDM (the "2011 Assessment") totaling approximately \$2.2 billion Mexican pesos (approx. \$103.5 million USD at October 31, 2020) related to Income Tax, Flat Rate Business Tax and Value Added Tax, corresponding to the fiscal 2011 tax audit. We have consulted with an internationally recognized tax advisor and continue to believe this tax assessment is without merit. Therefore, we filed an administrative appeal challenging the MFM's year 2011 assessment on June 12, 2019. The filing of an administrative appeal in Mexico is a process in which the taxpayer appeals to a different office within the Mexican tax authorities, forcing the legal office within the MFM to rule on the matter. This process preserves the taxpayer's right to litigate in tax court if the administrative appeal process ends without a favorable or just resolution. Furthermore, in August 2018, we received a favorable ruling from Mexico's Federal Tax Administration Service, Servicio de Administracion Tributaria's (the "SAT") central legal department in Mexico City on another tax matter (see Note 15 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2011 Assessment. We believe this recent ruling undermines the Assessment we received in April 2019.

During November 2020, we were in contact with the MFM and presented our arguments that we believe undermine the legality of the 2011 Assessment, asserting among others, the determination by the SAT's central legal department described below, which recognizes the legal validity of our operation as a maquiladora. Based on the foregoing, the MFM has offered to take into account such argument in its resolution of the pending administrative appeal.

We believe we have the legal arguments and documentation to sustain the positions challenged by the MFM.

Additionally, we also received notice from the SAT, that CDM is currently under examination related to fiscal year 2013. In January 2017, we received preliminary observations from SAT outlining certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers, and VAT. We provided a written rebuttal to these preliminary observations during our second fiscal quarter of 2017. During the period from our third fiscal quarter of 2017 through our third fiscal quarter of 2018, we attempted to resolve our case with the SAT

through working meetings attended by representatives of the SAT, CDM and the PRODECON. However, we were unable to materially resolve our case with the SAT through the PRODECON process.

As a result, in July 2018, the SAT's local office in Uruapan issued to CDM a final tax assessment (the "2013 Assessment") totaling approximately \$2.6 billion Mexican pesos (approx. \$122.4 million USD at October 31, 2020) related to Income Tax, Flat Rate Business Tax, and Value Added Tax, related to this fiscal 2013 tax audit. Additionally, the tax authorities have determined that we owe an employee's profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$5.6 million USD at October 31, 2020).

We have consulted with both an internationally recognized tax advisor, as well as a global law firm with offices throughout Mexico, and we continue to believe that this tax assessment is without merit. In August 2018, we filed an administrative appeal on the 2013 Assessment. CDM has appealed our case to the SAT's central legal department in Mexico City. Furthermore, and as noted in the preceding paragraphs, in August 2018, we received a favorable ruling from the SAT's central legal department in Mexico City on another tax matter (see Note 15 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is central to the 2013 Assessment. We believe this recent ruling significantly undermines the 2013 Assessment we received in July 2018.

In light of the foregoing, the Company is currently considering its options for resolution of the two tax assessments:

- In the unlikely event of an unfavorable resolution of the administrative appeal, we could file a nullification suit with the Mexican Tax Court. In order to file such suit, we would be required to post collateral or a bond for the total amount of the tax assessment (including inflation adjustments, penalties and surcharges) while the suit is in process, which could last from two to three years. If the suit results in an unfavorable ruling, there is an option to appeal to the Collegiate Circuit Court while maintaining the collateral or bond in place.
- In the event of filing a nullification suit, the collateral or bonding requirement may be avoided by filing a nullification suit on substantive matters ("Juicio de Fondo"). This type of suit permits only arguments on the legal merits of the taxpayer's case, and limits arguments on procedural matters.

The estimated time for resolution of this matter could be affected by the situation related to the COVID-19 pandemic. We continue to believe that the ultimate resolution of these matters is unlikely to have a material effect on our consolidated financial position.

## **8. Related-Party Transactions**

Certain members of our Board of Directors market California avocados through Calavo pursuant to marketing agreements substantially similar to the marketing agreements that we enter into with other growers. During the years ended October 31, 2020, 2019, and 2018, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$18.0 million, \$11.9 million and \$11.2 million. We did not have any amounts due to Board members as of October 31, 2020 and 2019.

During fiscal years 2020, 2019, and 2018, we received \$0.5 million, \$0.5 million and \$0.4 million as dividend income from Limoneira. In addition, we lease office space from Limoneira for our corporate office. Rent to Limoneira amounted to approximately \$0.3 million for fiscal years 2020, 2019, and 2018. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company. We have less than 10% ownership interest in Limoneira. In December 2018, our former Chief Executive Officer retired from Limoneira's Board of Directors.

We currently have a member of our Board of Directors who also serves as a partner in the law firm of TroyGould PC, which frequently represents Calavo as legal counsel. During the years ended October 31, 2020, 2019, and 2018, Calavo Growers, Inc. paid fees totaling approximately \$0.4 million, \$0.4 million and \$0.2 million to TroyGould PC. The director has advised us of his intention to retire from TroyGould PC in December 2020.

In December 2014, Calavo formed a wholly owned subsidiary Calavo Growers De Mexico, S. de R.L. de C.V. (Calavo Sub). In July 2015, Calavo Sub entered into a Shareholder Agreement with Grupo Belo del Pacifico, S.A. de

C.V., (Belo) a Mexican Company owned by Agricola Belher, and formed Agricola Don Memo, S.A. de C.V. Belo and Calavo Sub have an equal one-half ownership interest in Don Memo in exchange for \$2 million each. Pursuant to a management service agreement, Belo, through its officers and employees, has day-to-day power and authority to manage the operations. Therefore, Don Memo is accounted for on the equity method as an unconsolidated entity. Belo is entitled to a management fee, as defined, which is payable annually in July of each year. Additionally, Calavo Sub is entitled to commission, for the sale of produce in the Mexican National Market, U.S., Canada, and any other overseas market.

In January 2016, our unconsolidated subsidiary, Don Memo, entered into a loan agreement in the amount of \$4.5 million with Bank of America, N.A. (BoA) proceeds of which were used by Don Memo to repay debt owed to Calavo. Also in January 2016, Calavo and BoA, entered into a Continuing and Unconditional Guaranty Agreement (the Guaranty). Under the terms of the Guaranty, Calavo unconditionally guarantees and promises to pay Bank of America any and all indebtedness, as defined therein, of our unconsolidated subsidiary Don Memo to BoA. Belo has also entered into a similar guaranty with BoA. In December 2018, Don Memo received third party financing, repaid its loan to Bank of America and therefore, Calavo is no longer a guarantor for Don Memo's indebtedness.

As of October 31, 2020, 2019 and 2018, we have an investment of \$6.1 million, \$4.9 million and \$4.9 million, representing Calavo Sub's 50% ownership in Don Memo, which is included as an investment in unconsolidated entities on our balance sheet. We make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from tomato sales under our marketing program to Don Memo, net of our commission, other direct expenses, and aforementioned advances. In September 2018, we contributed \$0.2 million, of which \$0.1 million was a short-term loan, and \$0.1 million was an additional investment. In October 2020, we entered into an infrastructure loan agreement with Don Memo for \$2.4 million secured by Don Memo's property and equipment. This infrastructure loan will incur interest at 7.25%. In October 2020, we paid \$0.7 million related to this agreement, and the remaining \$1.7 million will be paid in January 2021. As of October 31, 2020, we have loaned a total of \$0.7 million (included in other long-term assets). As of October 31, 2020, 2019 and 2018, we had outstanding advances of \$2.4 million, \$3.7 million and \$2.4 million to Don Memo. As of October 31, 2020, 2019 and 2018, we had a tomato liability of \$1.8 million, \$0.9 million and \$1.0 million to Don Memo. During the year ended October 31, 2020, 2019 and 2018 we purchased \$15.8 million, \$14.1 million and \$11.1 million of tomatoes from Don Memo pursuant to our consignment agreement.

We had grower advances due from Belher of \$4.5 million, \$4.5 million and \$4.0 million as of October 31, 2020, 2019 and 2018. In August 2018, we entered into an amended infrastructure agreement with Belher and advanced \$3.0 million. This amount shall be paid back annually at \$0.6 million through June 2023, and incur interest of Libor plus 10%. In August 2020, we have amended this agreement to lower the interest rate to 7.25% and change the repayment terms to two years (\$0.9 million per year). We had infrastructure advances due from Belher of \$1.8 million, \$2.6 million and \$3.4 million as of October 31, 2020, 2019 and 2018. Of these infrastructure advances \$0.9 million was recorded as receivable in prepaid and other current assets and \$0.9 million is included in other assets. During the year ended October 31, 2020, 2019 and 2018, we purchased \$26.9 million, \$19.5 million, and \$14.1 million of tomatoes from Belher pursuant to our consignment agreement.

In August 2015, we entered into Shareholder's Agreement with various partners which created Avocados de Jalisco, S.A.P.I. de C.V. Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados. This entity is approximately 83% owned by Calavo and is consolidated in our financial statements. Avocados de Jalisco built a packinghouse located in Jalisco, Mexico and such packinghouse began operations in June of 2017. As of October 31, 2020 and 2019, we have made an insignificant amount of preseason advances to various partners of Avocados de Jalisco. During the year ended October 31, 2020, 2019 and 2018, we purchased approximately \$8.3 million, \$2.5 million and \$1.8 million of avocados from the partners of Avocados de Jalisco. In January 2018, we transferred \$1.0 million of equity interest to the Avocados de Jalisco noncontrolling members.

As of October 31, 2019, we have an equity investment of \$5.8 million in FreshRealm. During the quarter ended July 31, 2020, we concluded that there was no longer any value associated with our FreshRealm investment and therefore recognized a \$2.8 million impairment charge to fully impair the investment. See Note 16 and Note 20 for additional information. As of October 31, 2020, our ownership percentage in FreshRealm was approximately 37%.

Effective July 31, 2018, we entered into a Note and Membership Unit Purchase Agreement (“NMUPA”) with FreshRealm, pursuant to which we agreed to provide additional financing to FreshRealm, subject to certain terms and conditions. Pursuant to the NMUPA, we entered into a \$12 million Senior Promissory Note and corresponding Security Agreement with FreshRealm, effective August 10, 2018. We funded \$9 million of this loan commitment during the fourth quarter of fiscal 2018 and funded the remaining loan commitment amount of \$3 million during the first quarter of fiscal 2019. During the second quarter of fiscal 2019, we amended the note related to this loan, due October 31, 2019, and, among other things, included a provision whereby we had the option to extend repayment of this note to November 1, 2020.

During our first quarter of fiscal 2019, we loaned FreshRealm \$7.5 million in unsecured notes receivable. During our second quarter of fiscal 2019, we loaned an additional \$4.2 million on an unsecured basis to FreshRealm under similar terms. During our third quarter of fiscal 2019, we loaned an additional \$5.4 million on an unsecured basis to FreshRealm under similar terms. During our fourth quarter of fiscal 2019, we loaned an additional \$3.7 million to FreshRealm for a total outstanding principal amount of \$32.8 million, not including accrued interest. At such time, we entered into an agreement with FreshRealm wherein all of the outstanding loan amount owed by FreshRealm to us would be secured in the assets of FreshRealm.

As of November 25, 2019, we modified approximately \$2.7 million of the outstanding secured loan to FreshRealm and applied it to unsecured debt as part of a convertible note round offered by FreshRealm to its existing equity holders. Such convertible note bears interest at the rate of 10% up to the time of conversion. Such \$2.7 million unsecured note, along with the related accrued interest amount, was converted into additional equity of FreshRealm as of February 3, 2020. As a result of the convertible note round offered by FreshRealm our ownership percentage in FreshRealm (upon conversion on February 3, 2020) decreased to approximately 37%.

On April 1, 2020, we entered into another Unit Purchase and Subscription Agreement with FreshRealm, where FreshRealm raised \$4.0 million of additional equity from existing members. As part of that round, we invested \$0.5 million in cash and additionally converted the \$1.0 million short-term advanced in February 2020 into equity. Our ownership percentage in FreshRealm remained unchanged at 37%.

On April 1, 2020, in connection with the \$4.0 million capital raise previously mentioned, we entered into the 10<sup>th</sup> amendment to the FreshRealm promissory note which adjusted the interest rate on the notes receivable from 10% to 3% effective April 1, 2020. This interest rate reduction was meant to serve as inducement for other investors to participate in FreshRealm’s on-going capital raise and was contingent on FreshRealm completing that equity round. They successfully raised the full \$4 million equity round by the May 15, 2020 deadline. The entire principal balance of these notes shall be due and payable in full on April 1, 2022. If FreshRealm fails to make monthly interest payments beginning October 31, 2020, then the maturity date shall be reverted to November 1, 2020. Calavo has the option for up to two additional and separate one-year extensions of April 1, 2023 and April 1, 2024. As of October 31, 2019, we have \$35.2 million in note receivables (including interest) from FreshRealm.

During the third quarter of fiscal 2020, the results of operations of FreshRealm have deteriorated significantly from our expectations three months prior, with declining sales and continuing losses. FreshRealm will likely require additional capital in order to continue as a going concern. We do not plan to invest or loan any additional capital to FreshRealm. We have performed a valuation analysis of the financial condition and projected operations of FreshRealm under various methods, including liquidation, exit multiple, and perpetual growth approaches, appropriately weighted for the circumstances. In accordance with the foregoing, we have recorded an impairment of 100% of our equity investment of \$2.8 million, and we have recorded a reserve for collectability of 100% of our note receivable balance of \$34.2 million (which includes accrued interest of \$4.1 million), and \$0.3 million in trade accounts receivable as of October 31, 2020, which resulted in a loss of \$37.3 million, which is included in the accompanying consolidated statement of operations under “Loss on reserve for FreshRealm note receivable and impairment of investment”. As of August 1, 2020, we have discontinued the accrual of interest income on the note receivables. In connection with the foregoing, we recorded a \$9.5 million discreet income tax benefit for the third quarter of fiscal 2020.

One officer and five members of our board of directors have investments in FreshRealm as of October 31, 2020. In January 2018, one of our non-executive directors invested \$1.8 million into FreshRealm. In the second quarter of fiscal

2018, two of our non-executive directors invested \$1.2 million into FreshRealm. In October 2019, our former Chairman and Chief Executive Officer invested \$0.5 million in FreshRealm. In October 2019, one of our non-executive directors invested \$0.2 million into FreshRealm. In April 2020, our former Chairman and Chief Executive Officer invested \$0.4 million in FreshRealm, and two other members of the board of directors invested an additional \$0.1 million.

In the first quarter of fiscal 2019, FreshRealm entered into a supply contract with a large multi-national, multi-channel retailer. Calavo co-signed an addendum to this agreement to provide assurance to the customer that Calavo will assume responsibility for performance, in the event that FreshRealm cannot perform, provided that the customer must work in good faith to make reasonable adjustments to logistical elements in the contract, if requested by Calavo. We believe that we are able to fulfill our responsibility to this arrangement without significant impact on our results of operations.

We provide storage services to FreshRealm from select Value-Added Depots and RFG facilities. We received \$0.4 million, \$0.2 million and \$0.3 million in storage services revenue from FreshRealm for the year ended October 31, 2020, 2019 and 2018. For the year ended October 31, 2020, 2019 and 2018, RFG sold \$0.3 million, \$2.0 million and \$9.9 million of products to FreshRealm.

The previous owners of RFG, one of which is currently the Chief Executive Officer of Calavo, have a majority ownership of certain entities that provide various services to RFG, specifically LIG Partners, LLC and THNC, LLC. One of RFG's California operating entities leases a building from LIG Partners, LLC (LIG) pursuant to an operating lease. This lease with LIG was renewed in April 2019, through May 2026. RFG's Texas operating entity leases a building from THNC, LLC (THNC) pursuant to an operating lease. In the first quarter of fiscal 2020, these facilities have been sold to a third party and our lease has transferred to the new owners. See the following tables for the related party activity for fiscal years 2020 and 2019:

(in thousands)	Year ended October 31,	
	2020	2019
Rent paid to LIG	\$ —	\$ 579
Rent paid to THNC, LLC	\$ —	\$ 795

## 9. Income Taxes

On March 27, 2020, the President of the United States signed and enacted into law the Coronavirus Aid, Relief and Economic Security (CARES) Act. The CARES Act is a relief package intended to assist many aspects of the Country's economy of which certain components of the Act impacted the Company's 2020 income tax provision. We recorded approximately \$1.1 million of tax benefit as a result of the provision allowing taxpayers to carry back net operating losses to offset taxable income on previously filed tax returns.

The Company determined that certain foreign earnings to be indefinitely reinvested outside the United States. Our intent is to permanently reinvest these funds outside of the United States and our current plans do not demonstrate a need to repatriate the cash to fund our U.S. operations. However, if these funds were repatriated, we would be required to accrue and pay applicable United States taxes (if any) and withholding taxes payable to foreign tax authorities.

The income tax provision (benefit) consists of the following for the years ended October 31, (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Current:</b>			
Federal	\$ (5,684)	\$ 9,146	\$ 7,115
State	(214)	2,516	1,582
Foreign	645	290	(844)
<b>Total current</b>	<u>(5,253)</u>	<u>11,952</u>	<u>7,853</u>
<b>Deferred:</b>			
Federal	575	516	3,328
State	(505)	209	690
Foreign	260	205	848
<b>Total deferred</b>	<u>330</u>	<u>930</u>	<u>4,866</u>
Change in valuation allowance	631	—	—
<b>Total income tax provision (benefit)</b>	<u>\$ (4,292)</u>	<u>\$ 12,882</u>	<u>\$ 12,719</u>

At October 31, 2020 and 2019, gross deferred tax assets totaled approximately \$31.5 million and \$18.5 million, while gross deferred tax liabilities totaled approximately \$28.4 million and \$15.0 million. Deferred income taxes reflect the net of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes.

Significant components of our deferred taxes assets (liabilities) as of October 31, are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Property, plant, and equipment	(11,552)	(10,407)
Intangible assets	6,861	11,805
Unrealized gain, Limoneira investment	(116)	(2,352)
Investment in FreshRealm	1,096	(1,513)
Stock-based compensation	812	857
State taxes	(592)	(437)
Credits and incentives	1,345	1,109
Allowance for accounts receivable	1,165	834
Inventories	864	445
Accrued liabilities	2,119	3,423
Operating lease - Right of use assets	(15,732)	—
Operating lease liabilities	16,895	—
Net operating loss	369	—
Valuation allowance	(631)	—
<b>Other</b>	<u>(417)</u>	<u>(317)</u>
<b>Long-term deferred income taxes</b>	<u>\$ 2,486</u>	<u>\$ 3,447</u>

As of October 31, 2020, the Company has gross federal net operating losses of \$8 million that are expected to be carried back to one of the five preceding tax years and do not expire, and gross state net operating loss carryforwards of approximately \$7.2 million with carryforward periods primarily ranging from 20 years to indefinite.

The Company records a valuation allowance against deferred tax assets when determined that all or a portion of the deferred tax assets are not more likely than not to be realized based on all available evidence. As of October 31, 2020, the Company recorded an approximate \$0.6 million valuation allowance against the deferred tax assets for state tax credit carryforwards that are more likely than not to expire unutilized between 2022 and 2028.

A reconciliation of the significant differences between the federal statutory income tax rate and the effective income tax rate on pretax income for the years ended October 31, is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Federal statutory tax rate	21.0 %	21.0 %	23.3 %
State taxes, net of federal effects	4.4	3.7	3.6
NOL carryback - CARES Act	6.2	—	—
Foreign income taxes greater than U.S.	(2.3)	0.4	0.7
Revaluation of deferred taxes	—	—	4.5
Section 199 deduction	—	—	(1.9)
Provision to return	(2.5)	0.7	(1.2)
Transition Tax	—	—	0.6
State rate change	(0.1)	(0.2)	0.2
Valuation allowance	(2.7)	—	—
Other	(0.3)	0.4	(1.4)
	<u>23.7 %</u>	<u>26.0 %</u>	<u>28.4 %</u>

For fiscal years 2020, 2019 and 2018, income (loss) before income taxes (benefit) related to domestic operations was approximately \$(18.9) million, \$47.9 million, and \$45.8 million. For fiscal years 2020, 2019 and 2018, income (loss) before income taxes (benefit) related to foreign operations was approximately \$0.8 million, \$1.6 million and \$(1.1) million.

As of October 31, 2020 and 2019, we had liability of \$0.1 million and \$0.1 million for unrecognized tax benefits related to various foreign income tax matters.

We are subject to U.S. federal income tax as well as income of multiple state tax and foreign tax jurisdictions. We are no longer subject to U.S. income tax examinations for the fiscal years prior to October 31, 2017, and are no longer subject to state income tax examinations for fiscal years prior to October 31, 2016.

## 10. Segment Information

As discussed in Note 1, we report our operations in three different business segments: (1) Fresh products, (2) Calavo Foods, and (3) RFG. These three business segments are presented based on how information is used by our Chief Executive Officer to measure performance and allocate resources. The Fresh products segment includes all operations that involve the distribution of avocados and other fresh produce products. The Calavo Foods segment represents all operations related to the purchase, manufacturing, and distribution of prepared avocado products, including guacamole, and salsa. The RFG segment represents operations related to the manufacturing and distribution of fresh-cut fruit, fresh-cut vegetables and prepared foods. Selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our Chief Executive Officer in the aggregate. We do not allocate assets, or specifically identify them to, our operating segments.

The following table sets forth sales by product category, by segment (in thousands)

	Fresh products	Calavo Foods	RFG	Interco. Elimins.	Total
(All amounts are presented in thousands)					
<b>Year ended October 31, 2020</b>					
Net sales	\$ 585,052	\$ 75,220	\$ 404,723	\$ (5,624)	\$ 1,059,371
Cost of sales	537,489	54,277	383,331	(5,624)	969,473
Gross profit	<u>\$ 47,563</u>	<u>\$ 20,943</u>	<u>\$ 21,392</u>	<u>\$ —</u>	<u>\$ 89,898</u>
<b>Year ended October 31, 2019</b>					
Net sales	\$ 621,183	\$ 94,734	\$ 486,063	\$ (6,203)	\$ 1,195,777
Cost of sales	534,600	73,735	465,563	(6,203)	1,067,695
Gross profit	<u>\$ 86,583</u>	<u>\$ 20,999</u>	<u>\$ 20,500</u>	<u>\$ —</u>	<u>\$ 128,082</u>
<b>Year ended October 31, 2018</b>					
Net sales	\$ 553,208	\$ 91,646	\$ 448,930	\$ (5,026)	\$ 1,088,758
Cost of sales	498,962	64,221	416,985	(5,026)	975,142
Gross profit	<u>\$ 54,246</u>	<u>\$ 27,425</u>	<u>\$ 31,945</u>	<u>\$ —</u>	<u>\$ 113,616</u>

For fiscal year 2020, 2019 and 2018, inter-segment sales and cost of sales of \$1.7 million, \$1.8 million and \$1.6 million between Fresh products and RFG were eliminated. For fiscal year 2020, 2019 and 2018, inter-segment sales and cost of sales of \$4.0 million, \$4.0 million and \$3.5 million between Calavo Foods and RFG were eliminated.

The following table sets forth sales by product category, by segment (in thousands):

	Year Ended October 31, 2020				Year Ended October 31, 2019			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Avocados	\$ 521,542	\$ —	\$ —	\$ 521,542	\$ 569,779	\$ —	\$ —	\$ 569,779
Tomatoes	53,922	—	—	53,922	40,879	—	—	40,879
Papayas	10,529	—	—	10,529	10,931	—	—	10,931
Other fresh income	327	—	—	327	1,353	—	—	1,353
Prepared avocado products	—	79,382	—	79,382	—	100,842	—	100,842
Salsa	—	2,783	—	2,783	—	3,252	—	3,252
Fresh-cut fruit & veg. and prepared foods	—	—	406,572	406,572	—	—	488,373	488,373
Total gross sales	586,320	82,165	406,572	1,075,057	622,942	104,094	488,373	1,215,409
Less sales incentives	(1,268)	(6,945)	(1,849)	(10,062)	(1,759)	(9,360)	(2,310)	(13,429)
Less inter-company eliminations	(1,651)	(3,973)	—	(5,624)	(2,246)	(3,957)	—	(6,203)
Net sales	<u>\$ 583,401</u>	<u>\$ 71,247</u>	<u>\$ 404,723</u>	<u>\$ 1,059,371</u>	<u>\$ 618,937</u>	<u>\$ 90,777</u>	<u>\$ 486,063</u>	<u>\$ 1,195,777</u>



	Year Ended October 31, 2019				Year Ended October 31, 2018			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Avocados	\$ 569,779	\$ —	\$ —	\$ 569,779	\$ 511,730	\$ —	\$ —	\$ 511,730
Tomatoes	40,879	—	—	40,879	31,608	—	—	31,608
Papayas	10,931	—	—	10,931	11,699	—	—	11,699
Other fresh income	1,353	—	—	1,353	498	—	—	498
Prepared avocado products	—	100,842	—	100,842	—	99,635	—	99,635
Salsa	—	3,252	—	3,252	—	3,423	—	3,423
Fresh-cut fruit & veg. and prepared foods	—	—	488,373	488,373	—	—	451,203	451,203
Total gross sales	622,942	104,094	488,373	1,215,409	555,535	103,058	451,203	1,109,796
Less sales incentives	(1,759)	(9,360)	(2,310)	(13,429)	(2,327)	(11,412)	(2,273)	(16,012)
Less inter-company eliminations	(2,246)	(3,957)	—	(6,203)	(1,554)	(3,472)	—	(5,026)
Net sales	<u>\$ 618,937</u>	<u>\$ 90,777</u>	<u>\$ 486,063</u>	<u>\$ 1,195,777</u>	<u>\$ 551,654</u>	<u>\$ 88,174</u>	<u>\$ 448,930</u>	<u>\$ 1,088,758</u>

Sales to customers outside the U.S. were approximately \$29.7 million, \$42.5 million and \$41.8 million for fiscal years 2020, 2019, and 2018.

RFG segment sales included sales to one customer who represented more than 10% of total consolidated revenues for fiscal 2020, 2019 and 2018. Additionally, the Fresh products segment had sales to one customer that represented more than 10% of total consolidated revenues for fiscal 2020, 2019 and 2018.

Our goodwill balance of \$28.4 million is attributed by segment to Fresh products for \$3.9 million and RFG for \$24.5 million as of October 31, 2020. Our goodwill balance of \$18.3 million is attributed by segment to Fresh products for \$3.9 million and RFG for \$14.3 million as of October 31, 2019 and 2018.

Long-lived assets attributed to geographic areas as of October 31, are as follows (in thousands):

	United States	Mexico	Consolidated
2020	\$ 95,110	\$ 35,160	\$ 130,270
2019	\$ 98,224	\$ 33,874	\$ 132,098

## 11. Long-Term Obligations

Long-term obligations at fiscal year ends consist of the following (in thousands):

	2020	2019
Finance leases	7,059	6,174
Less current portion	(1,343)	(762)
	<u>\$ 5,716</u>	<u>\$ 5,412</u>

In April 2019, we sold our Temecula, California packinghouse for \$7.1 million in cash and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. This generated a gain of \$6.4 million. Since our leaseback of the building is classified as a capital lease and covers substantially all of the leased property, the gain recognized currently is the amount of the gain in excess of the recorded amount of the leased asset. As a result, we recognized a gain of approximately \$1.9 million in the second quarter of fiscal 2019 and recorded a deferred gain of \$4.5 million, which will be recognized over the life of the lease. In connection with the capital lease we capitalized \$3.2 million as a capital lease in property, plant and equipment and recorded a lease liability of \$3.2 million (\$0.1 million in current portion and \$3.1 million in long term debt).

During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods products for our RFG business segment. Annual rent for the building and equipment approximates \$0.9 million and \$0.6 million, respectively, over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and capitalized \$2.8 million as a capital lease in property, plant and equipment and recorded \$2.8 million as a lease obligation.

See Note 17 for the adoption of the new lease accounting disclosure.

## 12. Stock-Based Compensation

### *The 2005 Stock Incentive Plan*

The 2005 Stock Incentive Plan, was a stock-based compensation plan, under which employees and directors could be granted options to purchase shares of our common stock. In June 2012, this plan was terminated without affecting the outstanding stock options related to this plan.

Stock options were granted with exercise prices of not less than the fair market value at grant date, generally vested over one to five years and generally expired two to five years after the grant date. We settle stock option exercises with newly issued shares of common stock.

We measured compensation cost for all stock-based awards pursuant to this plan at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest. We measured the fair value of our stock based compensation awards on the date of grant.

A summary of stock option activity is as follows (in thousands, except for per share amounts):

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2019	2	\$ 19.20	
Exercised	(2)	\$ 19.20	
Outstanding at October 31, 2020	—	\$ —	\$ —
Exercisable at October 31, 2020	—	\$ —	\$ —

The total recognized and unrecognized stock-based compensation expense was insignificant for the year ended October 31, 2020 and 2019.

### *The 2011 Management Incentive Plan*

In April 2011, our shareholders approved the Calavo Growers, Inc. 2011 Management Incentive Plan (the 2011 Plan). All directors, officers, employees and consultants (including prospective directors, officers, employees and consultants) of Calavo and its subsidiaries are eligible to receive awards under the 2011 Plan. Up to 1,500,000 shares of common stock may be issued by Calavo under the 2011 Plan.

On August 10, 2020, as part of the employment agreement, Mark Lodge our newly appointed Chief Operating Officer was granted 4,568 restricted shares. The closing price of our stock on such date was \$65.67. These shares vest in one-third increments, on an annual basis. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was less than \$0.1 million for the year ended October 31, 2020.

On June 17, 2020, as part of the employment agreement, James Gibson our newly appointed Chief Executive Officer was granted 13,053 restricted shares, based on the date of when he became Chief Executive Officer. The closing price of our stock on such date was \$76.61. These shares vest in one-third increments, on an annual basis. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was \$0.2 million for the year ended October 31, 2020.

On May 11, 2020, as part of the employment agreement, Kevin Manion our newly appointed Chief Financial Officer was granted 5,418 restricted shares. The closing price of our stock on such date was \$55.37. These shares vest in one-third increments, on an annual basis. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was less than \$0.1 million for the year ended October 31, 2020.

On April 22, 2020, three of our former officers were granted a total 18,324 unrestricted shares, as part of their past services. The closing price of our stock on such date was \$61.09. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was \$1.1 million for the year ended October 31, 2020.

In January of fiscal 2020 all 12 of our non-employee directors were granted 1,500 restricted shares each (total of 18,000 shares). In January of fiscal 2019 and 2018, all 12 of our non-employee directors were granted 1,750 restricted shares each (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock was \$87.21, \$71.56 and \$85.90 for each respective year. After one year from the grant date, as long as the directors are still serving on the board, these shares lose their restriction and become non-forfeitable and transferable. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants were \$1.6 million and \$1.6 million for the year ended October 31, 2020 and 2019.

On December 18, 2019, our executive officers were granted a total of 31,158 restricted shares. On December 14, 2018, our executive officers were granted a total of 14,522 restricted shares. On December 18, 2017, our executive officers were granted a total of 25,241 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such dates was \$87.63, \$85.67 and \$75.45, respectively. These shares vest in one-third increments, on an annual basis, beginning December 18, 2020, December 14, 2019 and December 18, 2018. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants were \$1.4 million and \$2.0 million for the year ended October 31, 2020 and 2019.

A summary of restricted stock activity, related to our 2011 Management Incentive Plan, is as follows (in thousands, except for per share amounts):

	Number of Shares	Weighted-Average Grant Price	Aggregate Intrinsic Value
Outstanding at October 31, 2019	69	\$ 71.74	
Vested	(51)	\$ 70.48	
Forfeited	(14)	\$ 84.54	
Granted	72	\$ 81.19	
Outstanding at October 31, 2020	<u>76</u>	<u>\$ 80.45</u>	<u>\$ 5,107</u>

The total recognized stock-based compensation expense for restricted stock was \$4.5 million and \$3.6 million for the years ended October 31, 2020 and 2019.

A summary of stock option activity, related to our 2011 Management Incentive Plan, is as follows (in thousands, except for per share amounts):

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2019	18	\$ 41.91	
Exercised	(2)	\$ 23.48	
Outstanding at October 31, 2020	<u>16</u>	<u>\$ 44.21</u>	<u>\$ 380</u>
Exercisable at October 31, 2020	<u>12</u>	<u>\$ 45.59</u>	<u>\$ 269</u>

The weighted average remaining life of such outstanding options is 3.1 years. The weighted average remaining life of such exercisable options is 2.1 years. The fair value of vested shares as of October 31, 2020 and 2019, was \$0.8 million and \$0.7 million.

### 13. Dividends

On October 26, 2020, the Company declared a \$1.15 per share cash dividend to shareholders of record on November 13, 2020. On December 4, 2020, the Company paid this cash dividend which totaled \$20.3 million. On December 6, 2019, the Company paid a \$1.10 per share dividend in the aggregate amount of \$19.4 million to shareholders of record on November 15, 2019.

### 14. Fair Value Measurements

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3).

The following table sets forth our financial assets and liabilities as of October 31, 2020 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(All amounts are presented in thousands)			
<b>Assets at Fair Value at October 31, 2020:</b>				
Investment in Limoneira Company <sup>(1)</sup>	\$ 23,197	-	-	\$ 23,197
Total assets at fair value	<u>\$ 23,197</u>	<u>-</u>	<u>-</u>	<u>\$ 23,197</u>
<b>Assets at Fair Value at October 31, 2019:</b>				
Investment in Limoneira Company <sup>(1)</sup>	\$ 31,734	-	-	\$ 31,734
Total assets at fair value	<u>\$ 31,734</u>	<u>-</u>	<u>-</u>	<u>\$ 31,734</u>

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own less than 10% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2020 and October 31, 2019 equaled \$13.83 per share and \$18.92 per share (level 1). For the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of \$0.1 million in our consolidated statements of income. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to \$13.83 per share and \$18.92 per share at October 31, 2020 and 2019 and, as a result, we recorded a loss of \$8.5 million and \$9.6 million for the year ended October 31, 2020 and 2019 in our consolidated statements of operations. For the year ended October 31, 2018, we recognized losses of Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the year ended October 31, 2018, was \$2.2 million.

### 15. Mexican IVA taxes receivable

Included in other assets are tax receivables due from the Mexican government for value-added taxes (IVA) paid in advance. CDM is charged IVA by vendors on certain expenditures in Mexico, which, insofar as they relate to the exportation of goods, translate into IVA amounts receivable from the Mexican government.

As of October 31, 2020, and October 31, 2019, CDM IVA receivables totaled \$30.2 million (640.7 million Mexican pesos) and \$27.6 million (529.6 million Mexican pesos). Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2020, however, the tax

authorities began carrying out more detailed reviews of our refund requests and our supporting documentation. Additionally, they are also questioning the refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations, specifically during the years 2013 through 2016, amounting to \$6.5 million (137.3 million Mexican pesos), which is included in the total IVA receivables amount mentioned above. We believe these factors and others have contributed to delays in the processing of IVA claims by the Mexican tax authorities. Currently, we are in the process of collecting such balances through regular administrative processes, but certain amounts may ultimately need to be recovered via legal means and/or administrative appeals.

During the first quarter of fiscal 2017, tax authorities informed us that their internal opinion, based on the information provided by the local SAT office, considers that CDM is not properly documented relative to its declared tax structure and therefore CDM cannot claim the refundable IVA balance. CDM has strong arguments and supporting documentation to sustain its declared tax structure for IVA and income tax purposes. CDM filed an administrative appeal for the IVA related to the request of the months of July, August and September of 2015 (the “2015 Appeal”) in order to assert its argument that CDM is properly documented and to therefore change the SAT’s internal assessment. In August 2018, we received a favorable ruling from the SAT’s central legal department in Mexico City on the 2015 Appeal indicating that they believe CDM’s legal interpretation of its declared tax structure is indeed accurate. While favorable on this central matter of CDM’s declared tax structure, the ruling, however, still does not recognize the taxpayers right to a full refund for the IVA related to the months of July, August and September 2015. Therefore, in October 2018, CDM filed a substance-over-form annulment suit in the Federal Tax Court to recover its full refund for IVA over the subject period, which is currently pending resolution.

In spite of the favorable ruling from the SAT’s central legal department in Mexico City, as discussed above, the local SAT office continues to believe that CDM is not properly documented relative to its declared tax structure. As a result, they have not refunded any of CDM’s refundable IVA balances since 2012, specifically denying our IVA refund requests filed related to January through December of 2013, 2014, and 2015, and January 2017. CDM has strong arguments and supporting documentation to sustain its declared tax structure for IVA and income tax purposes. With assistance from our internationally recognized tax advisory firm, as of October 31, 2020, CDM has filed (or has plans to file) administrative appeals for the IVA related to all periods since 2013 through the present. A response to these administrative appeals is currently pending resolution.

In light of the foregoing, the Company is currently considering its options for resolution of the VAT receivables. In the unlikely event of an unfavorable resolution of the administrative appeals, we plan to file nullification suits with the Mexican Tax Court. If the suits result in an unfavorable ruling, there is an option to appeal to the Collegiate Circuit Court. The estimated time for the resolution of these suits could be 2 – 3 years. This estimated time could be impacted by the situation of the COVID-19 pandemic.

We believe that our operations in Mexico are properly documented. Furthermore, our internationally recognized tax advisors believe that there are legal grounds to prevail in the Federal Tax Court and that therefore, the Mexican tax authorities will ultimately authorize the refund of the corresponding IVA amounts.

## **16. FreshRealm**

### *Variable Interest Entity*

Based on the NMUPA and related Agreements, as described in Note 8, we reconsidered whether FreshRealm was a variable interest entity (VIE) as of October 31, 2020 and 2019. A VIE refers to a legal business structure in which an investor has a controlling interest in, despite not having a majority of voting rights; or a structure involving equity investors that do not have sufficient resources to support the ongoing operating needs of the business. Due primarily to FreshRealm utilizing substantially more debt to finance its activities, in addition to its existing equity, we believe that FreshRealm should be considered a VIE. In evaluating whether we are the primary beneficiary of FreshRealm, we considered several factors, including whether we (a) have the power to direct the activities that most significantly impact FreshRealm’s economic performance and (b) the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE. We concluded that we were not the primary beneficiary of FreshRealm at October 31, 2020 and 2019, because the nature of our involvement with the activities of FreshRealm does not give us the power

to direct the activities that most significantly impact its economic performance. We do not have a future obligation to fund losses or debts on behalf of FreshRealm. We may, however, voluntarily contribute funds. In the accompanying statements of operations, we have presented the income (loss) from unconsolidated entities, after the provision for income taxes for all periods presented.

During the quarter ended July 31, 2020, we concluded that there was no longer any value associated with our FreshRealm investment and therefore recognized a \$2.8 million impairment charge to fully impair the investment. (See Note 20). Our investment in FreshRealm totaled \$5.8 million at October 31, 2019.

For the year ended October 31, 2020, 2019 and 2018, FreshRealm incurred losses totaling \$24.1 million, \$30.6 million and \$29.4 million, of which we recorded \$7.2 million, \$14.1 million, and \$12.0 million of non-cash losses during fiscal 2020, 2019 and 2018. Effective December 16, 2018, FreshRealm completed a “check the box” tax election to change their entity classification for tax purposes to that of a corporation. To effect this change, FreshRealm, among other things, amended its operating agreement to eliminate the appropriate language related to the flow-through tax consequences of its prior tax status (Seventh Amended and Restated LLC Agreement) and checked the appropriate box on Form 8832 which it then filed with the Internal Revenue Service (IRS). As a result, losses incurred by FreshRealm from November 1, 2018 to December 15, 2018 were recorded in accordance with FASB Accounting Standards Codification (“ASC”) 810, ASC 323, and ASC 970, which mandate that the recognition of losses for an unconsolidated subsidiary be handled in a manner consistent with cash distributions upon liquidation of the entity when such distributions are different than the investors percentage ownership. As such, we recorded 100% of FreshRealm’s losses from November 1, 2018 through December 15, 2018 totaling \$4.2 million. Losses incurred by FreshRealm from December 16, 2018 to October 31, 2019 (after the change in tax status was effective) were recorded to reflect our proportionate share of FreshRealm losses. We recorded losses from December 16, 2018 through October 31, 2019 totaling \$9.9 million. During our year ended October 31, 2020, we recorded losses of approximately \$7.2 million, reflecting our proportionate share of FreshRealm losses. See Note 20 for more information on the reserve for collectability recorded on FreshRealm’s Note receivable and impairment charge recorded on the investment.

As of October 31, 2020 and 2019, we have note receivables from FreshRealm totaling \$34.5 million and \$35.2 million. See Note 8 for further information. See Note 20 for further discussion of the reserve for collectability recorded on FreshRealm’s Note receivable.

In the first quarter of fiscal 2019, FreshRealm entered into a supply contract with a large multinational, multi-channel retailer. Calavo co-signed an addendum to this agreement to provide assurance to the customer that Calavo will assume responsibility for performance, in the event that FreshRealm cannot perform, provided that the customer must work in good faith to make reasonable adjustments to logistical elements in the contract, if requested by Calavo. We believe that we are able to fulfill our responsibility to this arrangement without significant impact on our results of operations.

Except for the performance guarantee noted above, our exposure to the obligations of FreshRealm is generally limited to our investment. See Note 8 and Note 20 for more information. Our maximum exposure to loss could increase in the future if FreshRealm receives additional financing (i.e. equity or debt) from Calavo. We are under no obligation to provide FreshRealm additional financing and we currently have no plans to provide any additional financing to FreshRealm.

#### *Unconsolidated Equity Method Investee*

On May 20, 2020, the SEC issued a final rule regarding the financial statement requirements for acquisitions and dispositions of a business, which included, among other things, amending (1) certain criteria in the significance tests for equity method investees, such as introducing a revenue component when calculating the income test, (ii) related pro forma financial information requirements including its form and content, and (iii) related disclosure requirements, including the number of acquiree financial statement periods required to be presented in SEC filings. The final rule is effective for fiscal years beginning after December 31, 2020, with early application permitted. The Company determined to adopt this SEC final rule as of October 31, 2020, and as a result, the Company’s investment in FreshRealm was no longer considered a significant subsidiary.

The following tables show summarized financial information for FreshRealm (*in thousands*):

**Balance Sheet:**

	<u>October 31, 2020</u>	<u>October 31, 2019</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 508	\$ 961
Accounts receivable, net of allowances	716	1,493
Inventories, net	2,725	2,792
Prepaid expenses and other current assets	642	732
Property, plant, and equipment, net	3,368	6,076
Other assets	126	703
	<u>\$ 8,085</u>	<u>\$ 12,757</u>
<b>Liabilities and equity:</b>		
<b>Current liabilities</b>		
Debt to Calavo	\$ 14,160	\$ 6,533
	34,456	35,241
<b>Long-term liabilities</b>	—	—
<b>Equity</b>	(40,531)	(29,017)
	<u>\$ 8,085</u>	<u>\$ 12,757</u>

**Statement of Operations:**

	<u>Year ended October 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net sales	\$ 19,232	\$ 24,112	\$ 33,769
Gross loss	(3,022)	(5,783)	(10,868)
Selling, general and administrative	(14,188)	(20,196)	(19,512)
Other	(6,850)	(4,621)	1,023
Net loss	<u>\$ (24,060)</u>	<u>\$ (30,600)</u>	<u>\$ (29,357)</u>

**17. Leases**

The impact of applying ASC 842 effective as of November 1, 2019, to the Company's consolidated statements of operations and cash flows was not significant. The major impacts to the balance sheet at the effective date were 1) the addition of \$65.7 million in operating lease assets and \$69.6 million of operating lease liabilities, 2) the removal of approximately \$3.7 million and \$1.2 million of deferred rent and other long-term obligations, respectively, and 3) a cumulative-effect adjustment for the adoption of ASC 842 of \$0.9 million was recorded to retained earnings, which relates to the gain previously recognized in accordance with ASC 840 on its sale and operating leaseback of the Temecula facility.

ASC 842 made changes to sale-leaseback accounting to result in the recognition of the gain on the transaction at the time of the sale instead of recognizing over the leaseback period, when the transaction is deemed to be a sale instead of a financing arrangement. ASC 842 further changes the assessment of sale accounting from a transfer of risk and rewards assessment to a transfer of control assessment.

We utilized the modified retrospective adoption method. Therefore, the consolidated financial statements for 2020 are presented under the new standard, while the comparative periods presented are not adjusted and continue to be reported in accordance with the Company's historical accounting policy.

The standard provides a number of optional practical expedients and policy elections in transition. We have elected to apply the package of practical expedients under which we will not reassess under the standard our prior conclusions about lease classification and initial direct costs. We have elected the short-term lease recognition exemption for all leases that qualify (under one year term), meaning we will recognize expense on a straight-line basis and will not include the recognition of a right-of-use asset or lease liability. We will account for lease and non-lease components as a single-lease component for all leases.

We lease property and equipment under finance and operating leases. For leases with terms greater than 12 months, we record the related asset and obligation at the present value of lease payments over the term. Many of our leases include rental escalation clauses, renewal options and/or termination options that are factored into our determination of lease payments when appropriate.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. When available, we use the rate implicit in the lease to discount lease payments to present value; however, most of our leases do not provide a readily determinable implicit rate. We estimated our incremental borrowing rate based upon a synthetic credit rating and yield curve analysis. As a result, the incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments.

We lease certain property, plant and equipment, including office facilities, under operating leases. The lease term consists of the noncancellable period of the lease and the periods covered by options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. The Company's lease agreements do not contain any residual value guarantees.



### Lease Position

The following table presents the lease-related assets and liabilities recorded on the balance sheet as of October 31, 2020 (in thousands):

		<b>October 31, 2020</b>
<b>Assets</b>		
Non-current assets:		
Operating lease assets	Operating lease right-of-use assets	\$ 60,262
Finance lease assets	Property, plant and equipment, net	6,830
		<u>\$ 67,092</u>
<b>Liabilities</b>		
Current liabilities:		
Operating	Current portion of operating leases	\$ 6,443
Finance	Current portion of long-term debt and finance leases	1,343
Long-term obligations		
Operating	Long-term operating leases, less current portion	58,273
Finance	Long-term debt and finance leases, less current portion	5,716
		<u>\$ 71,775</u>
<b>Weighted-average remaining lease term:</b>		
Operating leases		10.0 years
Finance leases		7.9 years
<b>Weighted-average discount rate:</b>		
Operating leases		2.83 %
Finance leases		3.28 %

### Lease Costs

The following table presents certain information related to the lease costs for finance and operating leases for the year ended October 31, 2020 (in thousands):

	<b>Year ended October 31, 2020</b>
Amortization of financing lease assets	\$ 1,043
Operating lease cost	8,271
Short-term lease cost	996
Variable lease cost	2,865
Interest on financing lease liabilities	235
Total lease cost	<u>\$ 13,410</u>

### Other Information

The following table presents supplemental cash flow information related to the leases for the year ended October 31, 2020 (in thousands):

	Year ended October 31, 2020	
<i>Cash paid for amounts included in the measurement of lease liabilities</i>		
Operating cash flows for operating leases	\$	7,689
Financing cash flows for finance leases		1,115
Operating cash flows for finance leases		235

The total right-of-use assets obtained in exchange for new operating leases for the year ended October 31, 2020 was \$1.1 million.

### Undiscounted Cash Flows

The following table reconciles the undiscounted cash flows for each of the first five years and total remaining years to the finance lease liabilities and operating lease liabilities recorded on the balance sheet as of October 31, 2020 (in thousands):

	Operating Leases	Finance Leases
2021	\$ 8,171	\$ 1,551
2022	7,986	1,416
2023	7,922	1,301
2024	7,572	765
2025	6,748	371
Thereafter	36,478	2,788
<b>Total lease payments</b>	<b>74,877</b>	<b>8,192</b>
Less: imputed interest	10,161	1,133
<b>Total lease liability</b>	<b>\$ 64,716</b>	<b>\$ 7,059</b>

Prior to the adoption of ASC 842, as of October 31, 2019, we were committed to make minimum cash payments under these agreements, as follows (in thousands):

2020	\$ 9,534
2021	9,007
2022	8,672
2023	8,603
2024	8,203
Thereafter	50,796
	<u>\$ 94,815</u>

Total rent expense amounted to approximately \$10.7 million for the year ended October 31, 2019.

Prior to the adoption of ASC 842, as of October 31, 2019, capital lease payments are scheduled as follows (in thousands):

	<u>Total</u>
Year ending October 31:	
2020	\$ 907
2021	915
2022	908
2023	900
2024	548
Thereafter	3,162
Minimum lease payments	<u>7,340</u>
Less interest	<u>(1,166)</u>
Present value of future minimum lease payments	<u>\$ 6,174</u>

Present value of future minimum lease payments as of October 31, 2019 consist of \$5.4 million included in long-term obligations and finance leases and \$0.8 million included in current portion of long-term obligations and finance leases.

### 18. Acquisition of Simply Fresh Fruit

On January 21, 2020, we announced that our Renaissance Food Group (RFG) subsidiary had signed a definitive agreement to acquire SFFI Company, Inc. doing business as Simply Fresh Fruit (SFFI). In February 2020, we completed our acquisition of SFFI. We paid \$18.4 million in cash for 100% of SFFI (net of cash acquired). Founded in 1999 and based in Vernon, Calif., privately held SFFI is a processor and supplier of a broad line of fresh-cut fruit, principally serving the foodservice and hospitality markets. Its focus in those industries is anticipated to be highly complementary to the retail-grocery expertise of Calavo's RFG business segment and will be included in the RFG segment going forward.

The acquisition was accounted for as a business combination using the acquisition method of accounting. The preliminary allocation of the purchase price is based on management's analysis, including preliminary work performed by third party valuation specialists as of the acquisition date. We have determined the estimated fair values using Level 3 inputs after review and consideration of relevant information, including the projected cash flows, discount rates, customer attrition rates and other estimates made by management. The purchase price exceeded the estimated fair value of the net identifiable tangible and intangible assets acquired, and the excess was recognized as goodwill. We are in the process of completing the purchase price allocation and expect to have it finalized within the 12-month measurement period.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Current assets (including cash of \$623)	\$ 3,954
Property, plant, and equipment	2,260
Operating lease right-of-use assets	110
Goodwill	10,306
Intangible assets	<u>11,000</u>
Total assets acquired	27,630
Current liabilities	(5,155)
Non-current liabilities	(565)
Deferred taxes	<u>(2,891)</u>
Total liabilities acquired	(8,611)
Net assets acquired	<u>\$ 19,019</u>

Of the \$11.0 million of intangible assets, \$9.7 million was assigned to customer relationships with a life of 7 years, and \$1.3 million to trade names with a life of 10 years. We incurred \$0.3 million in transaction costs related to the acquisition, which is included in selling, general and administrative expenses in our consolidated statements of operations for the year ended October 31, 2020.

Adjustments after the initial close of the acquisition of SFFI are primarily related to the application of ASC 842 (See Note 17 for further detail on accounting for leases). Upon further review of the leases held by SFFI, we recorded \$0.8 million related to finance leases in property, plant and equipment, \$0.1 million in operating lease right-of-use assets and the related lease liability of \$0.9 million. In addition, we recorded \$0.5 million of additional goodwill for payments made after the close date.

The financial effect of this acquisition was not material to our statement of operations, and we have not presented pro forma results of operations for the acquisition because it is not significant to our consolidated statements of operations.

## **19. COVID-19 Pandemic Impact**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The COVID-19 pandemic has created challenging and unprecedented conditions for our business, and we are committed to taking action in support of a Company-wide response to the crisis. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. We believe we are well positioned for the future as we continue to navigate the crisis and prepare for an eventual return to a more normal operating environment. We have successfully implemented contingency plans overseen by our management teams in the U.S. and in Mexico to monitor the evolving needs of our businesses in those countries, as well as those related to our Peru partner in consignment avocado sales and our Mexico partners in consignment tomato sales.

The COVID-19 pandemic began to have an adverse impact on our results of operations in the month of March, resulting in cancelled orders, altered customer buying patterns, delays in potential new business opportunities, losses on product unable to be sold, reductions in margins related to lower manufacturing throughput, and changes to integration plans for an acquired entity. The effects of the pandemic were more pronounced in the portions of our business servicing foodservice customers business and to a lesser extent certain segments of our retail business, including behind-the-glass deli and grab-and-go convenience items. While we have managed the pandemic well, with improving results since April and minimal disruption to our overall business thus far, the continuing impact of the pandemic on our future consolidated results of operations, financial position and cash flows are uncertain.

## **20. Reserve for FreshRealm Note Receivable and Impairment of Investment**

During the third quarter of fiscal 2020, the results of operations of FreshRealm have deteriorated significantly from our expectations from three months prior, with declining sales and continuing losses. FreshRealm will likely require additional capital in order to continue as a going concern. We do not plan to invest or loan any additional capital to FreshRealm. We have performed a valuation analysis of the financial condition and projected operations of FreshRealm under various methods, including liquidation, exit multiple, and perpetual growth approaches, appropriately weighted for the circumstances. In accordance with the foregoing, we have recorded an impairment of 100% of our equity investment of \$2.8 million, and we have recorded a reserve for collectability of 100% of our note receivable balance of \$34.2 million (which includes accrued interest of \$4.1 million), and \$0.3 million in trade accounts receivable as of October 31, 2020, which resulted in a loss of \$37.3 million, which is included in the accompanying consolidated statement of operations under “Loss on reserve for FreshRealm note receivable and impairment of investment”. As of August 1, 2020, we have discontinued the accrual of interest income on the note receivables. In connection with the foregoing, we recorded a \$9.5 million discreet income tax benefit for the third quarter of fiscal 2020.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of  
Calavo Growers, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the "Company") as of October 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows, for each of the three years in the period ended October 31, 2020, and the related notes and the schedule listed in the Index at Item 15 (a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of October 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 21, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Adoption of ASU No. 2016-01

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for certain equity investments by recognizing the change in fair value in net income effective November 1, 2018 due to the adoption of Accounting Standards Update ("ASU") No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

## ***Mexican IVA taxes receivable — Refer to Note 15 to the financial statements***

### *Critical Audit Matter Description*

As of October 31, 2020, the Company's subsidiary, Calavo de Mexico (CDM), has value-added taxes (IVA) receivable of \$30.2 million from the Mexican government. Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2020, there have been delays in the processing of the IVA claims by the Mexican tax authorities. The Mexican authorities informed the Company that CDM is not properly documented relative to its declared tax structure and therefore CDM cannot claim the refundable IVA balance. Mexican authorities also questioned refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations.

Given the significant judgments made by management to determine the Company's ability to recover the IVA taxes receivable, performing audit procedures to evaluate the Company's interpretation and compliance with international tax laws involved significant auditor judgment and use of tax specialists with specialized skills and knowledge, which we have determined to be a critical audit matter.

### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to management's judgments related to the collectability of the IVA taxes receivable included the following, among others:

- We tested the effectiveness of the control over the recoverability of the Mexican IVA taxes receivable, along with the review of related disclosures.
- With the assistance of our tax specialists, we evaluated the recoverability of the IVA receivable by evaluating the technical merits including substantiating that the Company's declared tax structure is in compliance with Mexican tax regulations.
- We obtained a confirmation from the Company's tax advisors related to the collectability of the IVA receivable, and evaluated case rulings supporting the recoverability of IVA taxes paid to non-compliant vendors.

## ***Uncertain Tax Positions Related to Mexico tax audits — Refer to Note 7 to the Financial Statements***

### *Critical Audit Matter Description*

The Company is under audit by the Mexican tax authorities relating to the Company's 2011 and 2013 fiscal years. The Mexican tax authorities have assessed the Company with an underpayment of tax amounts alleging improper deductions for intercompany funding, deduction for services, and IVA in the Company's calculation of taxable income. The assessments, including the effect of inflation and penalties, amounted to \$2.2 billion Mexican pesos (approx. \$103.5 million USD at October 31, 2020) and \$2.6 billion Mexican pesos (approx. \$122.4 million USD at October 31, 2020) relating to the 2011 and 2013 audits, respectively. The Company filed administrative appeals to dismiss the assessments made by the Mexican tax authorities, asserting that the positions taken by the Company are in accordance with tax regulations. No amounts have been accrued in the accompanying financial statements related to these Mexico tax audits.

Given the significant judgments made by management in determining its analysis and accounting for the Company's uncertain tax positions, performing audit procedures to evaluate the Company's interpretation and compliance with international tax laws involved significant auditor judgment and use of tax specialists with specialized skills and knowledge, which we have determined to be a critical audit matter.

### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the determination of whether it is more likely than not that the Company's tax positions challenged by the Mexican tax authorities will be realized included the following, among others:

- We tested the effectiveness of the control over the evaluation of uncertain tax positions as it relates to the periods subject to the Mexico tax audits, along with the review of related disclosures.
- We selected and reviewed a sample of source documents supporting management's position on the Company's accounting for intercompany funding for product purchases and vendor-provided services.
- With the assistance of our tax specialists, we evaluated management's assertion that the Company's tax positions are more likely than not to be realized by evaluating whether the Company's declared tax structure is in compliance with Mexican tax regulations.
- We obtained a confirmation from the Company's tax advisors related to understanding the advisor's current assessment of the tax audits and assessed the technical merits of tax positions taken by the Company.

/s/ Deloitte & Touche LLP

Los Angeles, California

December 21, 2020

We have served as the Company's auditor since 2015.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures****Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of October 31, 2020.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended October 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

Based on our evaluation under the framework set forth in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of October 31, 2020. Our internal control over financial reporting as of October 31, 2020 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of  
Calavo Growers, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Calavo Growers, Inc. and subsidiaries (the “Company”) as of October 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended October 31, 2020, of the Company and our report dated December 21, 2020, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Los Angeles, California

December 21, 2020

#### **Item 9B. Other Information**

None.

### **PART III**

Certain information required by Part III is omitted from this Annual Report because we will file a definitive Proxy Statement for the Annual Meeting of Shareholders pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the Proxy Statement), not later than 120 days after the end of the fiscal year covered by this Annual Report, and the applicable information included in the Proxy Statement is incorporated herein by reference.

#### **Item 10. Directors, Executive Officers, and Corporate Governance**

The names of our executive officers and their ages, titles and biographies are incorporated by reference from Part I, above.

The following information is included in our Notice of Annual Meeting of Shareholders and Proxy Statement to be filed within 120 days after our fiscal year end of October 31, 2020 (the Proxy Statement) and is incorporated herein by reference:

- Ø Information regarding our directors who are standing for reelection and any persons nominated to become our directors is set forth under "Election of Directors."
- Ø Information regarding our Audit Committee and designated "audit committee financial expert" is set forth under "Corporate Governance Principles and Board Matters—Board Structure and Committee Composition—Audit Committee."
- Ø Information on our code of business conduct and ethics for directors, officers and employees and our Corporate Governance Guidelines is set forth under "Corporate Governance Principles and Board Matters."
- Ø Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under "Section 16(a) Beneficial Ownership Reporting Compliance."

#### **Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to the sections entitled "Executive Compensation" and "Directors' Compensation" in the Proxy Statement.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference to the sections entitled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference to the section entitled “Certain Relationships and Related Transactions” in the Proxy Statement.

**Item 14. Principal Accountant’s Fees and Services**

Information required by this Item is incorporated herein by reference to the section of the Proxy Statement entitled “Principal Accountant Fees and Services.”

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(a) (1) Financial Statements**

The following consolidated financial statements as of October 31, 2020 and 2019 and for each of the three years in the period ended October 31, 2020 are included herewith:

Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income (Loss), Consolidated Statements of Cash Flows, Consolidated Statements of Shareholders' Equity, Notes to Consolidated Financial Statements, and Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.

**(2) Supplemental Schedules**

Schedule II -- Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the consolidated financial statements or notes thereto.

**(3) Exhibits**

See the “Exhibit Index” on pages 81 - 84 of this report.

**(b) Exhibits**

See subsection (a) (3) above.

**(c) Financial Statement Schedules**

See subsection (a) (1) and (2) above.

**Item 16. Form 10-K Summary**

None

SCHEDULE II

CALAVO GROWERS, INC.

VALUATION AND QUALIFYING ACCOUNTS (in thousands)

	<u>Fiscal year ended October 31:</u>	<u>Balance at beginning of year</u>	<u>Additions(1)</u>	<u>Deductions(2)</u>	<u>Balance at end of year</u>
Allowance for customer deductions	2018	1,038	9,079	8,267	1,850
	2019	1,850	12,211	12,107	1,954
	2020	1,954	8,490	8,552	1,892
Allowance for doubtful accounts	2018	1,452	—	75	1,377
	2019	1,377	35	—	1,412
	2020	1,412	194	—	1,606

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(1) Charged to net sales (customer deductions) or costs and expenses (doubtful accounts).

(2) Customer deductions taken or write off of accounts receivables.

The above table does not include the reserve for notes receivable from FreshRealm of \$34.2 million. See Note 20.

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
2.1	<a href="#"><u>Agreement and Plan of Merger and Reorganization dated as of February 20, 2001 between Calavo Growers, Inc. and Calavo Growers of California.</u></a> <sup>1</sup>
2.2	<a href="#"><u>Agreement and Plan of Merger dated as of November 7, 2003 among Calavo Growers, Inc., Calavo Acquisition Inc., Maui Fresh International, Inc. and Arthur J. Bruno, Robert J. Bruno and Javier J. Badillo.</u></a> <sup>2</sup>
2.3	<a href="#"><u>Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc.</u></a> <sup>3</sup>
2.4	<a href="#"><u>Acquisition Agreement between Calavo Growers, Inc., a California corporation and Lecil E. Cole, Eric Weinert, Suzanne Cole-Savard, Guy Cole, and Lecil E. Cole and Mary Jeanette Cole, acting jointly and severally as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993, also known as the Lecil E. and Mary Jeanette Cole Revocable 1993 Trust dated May 19, 2008</u></a> <sup>4</sup>
2.5	<a href="#"><u>Acquisition Agreement between Calavo Growers, Inc., Calavo Salsa Lisa, LLC, Lisa's Salsa Company and Elizabeth Nicholson and Eric Nicholson dated February 8, 2010</u></a> <sup>13</sup>
2.6	<a href="#"><u>Amended and Restated Limited Liability Company Agreement for Calavo Salsa Lisa, LLC dated February 8, 2010 among Calavo Growers, Inc., Calavo Salsa Lisa LLC, Lisa's Salsa Company, Elizabeth Nicholson and Eric Nicholson. (Portions of this agreement have been deleted and filed separately with the Securities and Exchange Commission Pursuant to a request for confidential treatment.)</u></a> <sup>13</sup>
2.7	<a href="#"><u>Agreement and Plan of Merger dated May 25, 2011 among Calavo Growers, Inc., CG Mergersub LLC, Renaissance Food Group, LLC and Liberty Fresh Foods, LLC, Kenneth Catchot, Cut Fruit, LLC, James Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and RFG Nominee Trust</u></a> <sup>1</sup> (Certain portions of the exhibit have been omitted based upon a request for confidential treatment filed by the Registrant with the Securities and Exchange Commission. The omitted portions of the exhibit have been separately filed by the Registrant with the Securities and Exchange Commission.) <sup>16</sup>
2.8	<a href="#"><u>Sale of LLC Interest Agreement dated October 31, 2013 between Calavo Growers, Inc. and San Rafael Distributing, Inc.</u></a> <sup>17</sup>
2.9	<a href="#"><u>Amendment No. 1 to Agreement and Plan of Merger, dated July 31, 2013, among Calavo Growers, Inc., Renaissance Food Group, LLC and Liberty Fresh Foods, LLC, Kenneth Catchot, Cut Fruit, LLC, James Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and RFG Nominee Trust.</u></a> <sup>18</sup>
2.10	<a href="#"><u>Amended and Restated Limited Liability Company Agreement, dated August 16, 2013, by and among FreshRealm, LLC, a Delaware limited liability company, and the Members.</u></a> <sup>19</sup>
2.11	<a href="#"><u>Amendment No. 2 to Agreement and Plan of Merger, dated as of October 1, 2013, among Calavo Growers, Inc., Renaissance Food Group, LLC and Liberty Fresh Foods, LLC, Kenneth J. Catchot, Cut Fruit, LLC, James S. Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and the RFG Nominee Trust.</u></a> <sup>20</sup>
3.1	<a href="#"><u>Articles of Incorporation of Calavo Growers, Inc.</u></a> <sup>4</sup>
3.2	<a href="#"><u>Amended and Restated Bylaws of Calavo Growers, Inc.</u></a> <sup>5</sup>
3.3	<a href="#"><u>Amendments to Articles of Incorporation or Bylaws of Calavo Growers, Inc.</u></a> <sup>15</sup>
3.4	<a href="#"><u>Amended and Restated Bylaws of Calavo Growers, Inc., effective as of September 25, 2014.</u></a> <sup>21</sup>
4.1	<a href="#"><u>Description of the Securities of Calavo Growers, Inc. Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.</u></a> <sup>34</sup>
10.1	<a href="#"><u>Form of Marketing Agreement for Calavo Growers, Inc.</u></a> <sup>6</sup>
10.2	<a href="#"><u>Marketing Agreement dated as of April 1, 1996 between Tropical Hawaiian Products, Inc., a Hawaiian corporation, and Calavo Growers of California.</u></a> <sup>1</sup>
10.3	<a href="#"><u>Lease Agreement dated as of November 21, 1997, between Tede S.A. de C.V., a Mexican corporation, and Calavo de Mexico, S.A. de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated December 16, 1996.</u></a> <sup>1</sup>
10.4	<a href="#"><u>Lease agreement dated as of February 15, 2005, between Limoneira Company and Calavo Growers, Inc.</u></a> <sup>3</sup>
10.5	<a href="#"><u>Standstill agreement dated June 1, 2005, between Limoneira Company and Calavo Growers, Inc.</u></a> <sup>3</sup>
10.6	<a href="#"><u>Standstill agreement dated June 1, 2005 between Calavo Growers, Inc. And Limoneira Company</u></a> <sup>3</sup>

- 10.7 [Calavo Supplemental Executive Retirement Agreement dated March 11, 1983 between Egidio Carbone, Jr. and Calavo Growers of California.](#)<sup>1</sup>
- 10.8 [Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 Between Egidio Carbone, Jr. and Calavo Growers of California.](#)<sup>1</sup>
- 10.9 [Line of Credit and Security Agreement, dated July 15, 2013 by and between Calavo Growers, Inc. a California Corporation, and FreshRealm, LLC, a Delaware limited liability company.](#)<sup>19</sup>
- 10.10 [2011 Management Incentive Plan of Calavo Growers, Inc.](#)<sup>14</sup>
- 10.11 [Equity Secured Promissory Note dated October 31, 2013 between Calavo Growers, Inc. and San Rafael Distributing, Inc.](#)<sup>17</sup>
- 10.12 [Goodwill Secured Promissory Note dated October 31, 2013 between Calavo Growers, Inc. and San Rafael Distributing, Inc.](#)<sup>17</sup>
- 10.13 [Pledge and Security Agreement dated October 31, 2013 between Calavo Growers, Inc. and San Rafael Distributing, Inc.](#)<sup>17</sup>
- 10.14 [Personal Guaranty dated October 31, 2013 between Calavo Growers, Inc. and Francisco Clouthier.](#)<sup>17</sup>
- 10.15 [Amendment to Goodwill Promissory Note](#)<sup>30</sup>
- 10.16 [Employment Agreement dated July 21, 2015, between Calavo Growers, Inc. and B. John Lindeman.](#)<sup>22</sup>
- 10.17 [Amendment No. 7 to Business Loan Agreement, dated as of January 19, 2016 between Bank of America, N.A. and Calavo Growers, Inc.](#)<sup>23</sup>
- 10.18 [Letter Amendment to Revolving Credit Facility, dated January 19, 2016 between Farm Credit West, PCA and Calavo Growers, Inc.](#)<sup>23</sup>
- 10.19 [Letter Amendment to Revolving Credit Facility, dated January 26, 2016 between Farm Credit West, PCA and Calavo Growers, Inc.](#)<sup>24</sup>
- 10.20 [Amendment No. 8 to Business Loan Agreement, dated as of January 28, 2016 between Bank of America, N.A. and Calavo Growers, Inc.](#)<sup>24</sup>
- 10.21 [Continuing and Unconditional Guaranty, dated as of January 28, 2016 between Bank of America, N.A. and Calavo Growers, Inc.](#)<sup>24</sup>
- 10.22 [Amendment No. 9 to Business Loan Agreement, dated as of May 26, 2016 between Bank of America, N.A. and Calavo Growers, Inc.](#)<sup>25</sup>
- 10.23 [Letter Amendment to Revolving Credit Facility, dated May 20, 2016 between Farm Credit West, PCA and Calavo Growers, Inc.](#)<sup>25</sup>
- 10.24 [Credit Agreement, dated as of June 14, 2016, by and among Calavo Growers, Inc., and the subsidiary guarantor identified therein and the lenders and agents names therein.](#)<sup>26</sup>
- 10.25 [Revolving Credit Note, dated as of June 14, 2016, by and among Calavo Growers, Inc., and FCW.](#)<sup>26</sup>
- 10.26 [First Amendment to Credit Agreement dated August 29, 2016.](#)<sup>27</sup>
- 10.27 [Agreement to Sell and Purchase and Escrow Instructions with Fresh Foods, LLC, a Delaware limited liability company dated July 25, 2016.](#)<sup>28</sup>
- 10.28 [First Amendment Agreement to Sell and Purchase and Escrow Instructions, by and among Calavo Growers, Inc., and Fresh Foods, LLC.](#)<sup>29</sup>
- 10.29 [FreshRealm, LLC, Sixth Amended and Restated Limited Liability Company Agreement.](#)<sup>31</sup>
- 10.30 [First Amendment to FreshRealm, LLC, Sixth Amended and Restated Limited Liability Company Agreement.](#)<sup>31</sup>
- 10.31 [Amended and restated Promissory Note](#)<sup>32</sup>
- 10.32 [Fourth Amendment to Senior Promissory Note and Note and Membership Unit Purchase Agreement](#)<sup>32</sup>
- 10.33 [FreshRealm Promissory Note](#)<sup>32</sup>
- 10.34 [Second Amendment to Credit Agreement](#)<sup>32</sup>
- 10.35 [FreshRealm Seventh and Restated LLC Agreement](#)<sup>32</sup>
- 10.36 [FreshRealm Eight Amendment to Senior Promissory Note](#)<sup>33</sup>
- 10.37 [FreshRealm Ninth Amendment to Senior Promissory Note](#)<sup>33</sup>
- 10.38 [FreshRealm Tenth Amendment to Senior Promissory Note](#)<sup>33</sup>
- 10.39 [FreshRealm Eleventh Amendment to Senior Promissory Note](#)<sup>33</sup>
- 21.1 [Subsidiaries of Calavo Growers, Inc.](#)<sup>1</sup>
- 23.1 [Consent of Deloitte & Touche LLP.](#)<sup>\*</sup>
- 31.1 [Certification of Chief Executive Officer Pursuant to Rule 13a-15\(e\) or Rule 15d-15\(e\).](#)<sup>\*</sup>

- 31.2 [Certification of Chief Financial Officer Pursuant to Rule 13a-15\(e\) or Rule 15d-15\(e\)\\*](#)
- 32 [Certification of Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350\\*](#)
- 101 The following financial information from the Annual Report on Form 10-K of Calavo Growers, Inc. for the year ended October 31, 2020, formatted in Inline XBRL (eXtensible Business Reporting Language): (1) Consolidated Balance Sheets as of October 31, 2020 and 2019; (2) Consolidated Statements of Operations for the years ended October 31, 2020, 2019 and 2018; (3) Consolidated Statements of Comprehensive Income (Loss) for the years ended October 31, 2020, 2019, and 2018; (4) Consolidated Statements of Shareholders' Equity for the years ended October 31, 2020, 2019, and 2018; (5) Consolidated Statements of Cash Flows for the years ended October 31, 2020, 2019 and 2018; and (6) Notes to Financial Statements. \*
- 104 Cover Page Interactive Data File (formatted as Inline XBRL).

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\* Filed with this Annual Report on Form 10-K.

- 1 Previously filed on April 24, 2001 as an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-59418, and incorporated herein by reference.
- 2 Previously filed on January 23, 2004 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 3 Previously filed on June 9, 2005 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 4 Previously filed on May 29, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 5 Previously filed on December 19, 2002 as an exhibit to the Registrant's Report on Form 8-K, and incorporated herein by reference.
- 6 Previously filed on January 28, 2003 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 7 Previously filed on March 21, 2005 as an exhibit to the Registrant's Definitive Proxy Statement on Form DEF14A and incorporated herein by reference.
- 8 Previously filed on October 19, 2007 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 9 Previously filed on January 27, 2009 as an exhibit to the Registrant's Report on Form 10-K/A and incorporated herein by reference.
- 10 Previously filed on September 11, 2006 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 11 Previously filed on August 6, 2009 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 12 Previously filed on January 11, 2010 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 13 Previously filed on March 11, 2010 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 14 Previously filed on January 14, 2011 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 15 Previously filed on March 30, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 16 Previously filed on January 10, 2012 as an exhibit to the Registrant's Report on Form 8-K/A and incorporated herein by reference.



- 17 Previously filed on November 6, 2012 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 18 Previously filed on September 4, 2013 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 19 Previously filed on September 9, 2013 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 20 Previously filed on November 26, 2013 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 21 Previously filed on September 30, 2014 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 22 Previously filed on July 27, 2015 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 23 Previously filed on January 25, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 24 Previously filed on February 1, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 25 Previously filed on May 27, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 26 Previously filed on June 20, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 27 Previously filed on September 1, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 28 Previously filed on September 8, 2016 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 29 Previously filed on November 7, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 30 Previously filed on December 23, 2016 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 31 Previously filed on September 4, 2018 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 32 Previously filed on March 7, 2019 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 33 Previously filed on June 9, 2020 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 34 Previously filed on March 30, 2020 as an exhibit to the Registrant's Report on Form 10-K/A and incorporated herein by reference.



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-180597, 333-191702 and 333-199754 on Form S-3 and Registration Statement Nos. 333-132175 and 333-179101 on Form S-8 of our reports dated December 21, 2020, relating to the consolidated financial statements and financial statement schedule of Calavo Growers, Inc. and subsidiaries (the “Company”) and the effectiveness of the Company’s internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended October 31, 2020.

/s/ Deloitte & Touche LLP

Los Angeles, California  
December 21, 2020

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## CERTIFICATION

I, James Gibson, certify that:

1. I have reviewed this annual report on Form 10-K of Calavo Growers, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present, in all material respects, the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 21, 2020

/s/ James Gibson  
James Gibson  
Chief Executive Officer

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## CERTIFICATION

I, Kevin Manion, certify that:

1. I have reviewed this annual report on Form 10-K of Calavo Growers, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present, in all material respects, the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 21, 2020

/s/ Kevin Manion  
Kevin Manion  
Chief Financial Officer  
(Principal Financial Officer)

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WRITTEN STATEMENT OF CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER

Each of the undersigned, the Chairman of the Board and Chief Executive Officer and Chief Operating Officer, Chief Financial Officer, and Corporate Secretary of Calavo Growers, Inc. (the Company), hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Company's Annual Report on Form 10-K for the year ended October 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 21, 2020

/s/ James Gibson

James Gibson  
Chief Executive Officer

/s/ Kevin Manion

Kevin Manion  
Chief Financial Officer

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